The Book Contains :

F. and India.—Monetary Conference rejects the Indian demands, India hesitates but finally joins the scheme, there is a settlement of the sterling balances and India gets a permanent seat.

6. Advantages of Membership :—the Fund helps India to liquidate deficit in the balance of payments, India is enabled to join the Bank, India borrows to the full and gets further concessions.

7. The World Bank.—quotas and subscriptions to the Bank, member's purchasing rights have no reference to the quotas, Bank deals through governments, the Bank advances or guarantees long term loans on the fulfilment of certain conditions.

8. The Bank and India.—India paid $ 40 m. and became an original member of the Bank ; India gets loans for railway development, agricultural improvement and development projects.

9. The Conclusion.—the Russian withdrawal, the political bias in the Fund and the Bank.

Introductory :—

The period between the two World wars was a period of great economic upheavals. The development of a large number of "Economic Philosophies" and economic practices was witnessed during this period. Many new experiments were made in the sphere of currency and monetary policy. It appeared that the old ideology of *laissez faire*, at any rate, completely disappeared. The world, once again, returned back to a modified form of Mercantilism and protectionism became an accepted creed. The leading countries of the world had expanded their currencies far beyond the limits of their gold reserves during the first World War. After the war, therefore, a modified form of gold standard called the Gold Bullion Standard was evolved. Now this gold standard required a considerable amount of governmental interference to work it out successfully. It was in the words of Cannan "neither fool-proof nor knave proof". The result was that the so—called rules of the gold standard were violated, more or less universally and forces were let loose that completely undermined the proper working of monetary policies. Currency depreciations became wide-spread. These depreciations led to the shrinkage of the total volume of international trade because they introduced an element of uncertainty into one country's dealings with another. More seriously still, they created a great panic in the international loan market. The total volume of international lending greatly shrank. Short-term loans began to move rapidly from one country to another in search of comparative safety. This 'refugee capital', as it has been called, made the working of the gold standard and the monetary policies all the more difficult.

During World War I, the dangers arising out of a country's dependence upon other countries for the supply of essential commodities were fully brought to light. Many countries suffered from acute scarcities of many consumption goods or had to stop their industries for want of raw materials because during the war it was impossible to import these commodities from abroad. The philosophy of Economic Nationalism aiming at economic self-sufficiency was a logical outcome of this position. The philosophy aimed at producing all 'necessary' things inside the country even if it could only be achieved through artificial stimulants. Tariff regulations, export subsidies, import quotas, bilateral trade agreements and exchange depreciations were some of the methods used for providing protection to domestic industries. All these measures further reduced the volume of international trade and of international loans.

The Gold Bullion Standard never seemed to have worked well. The international jealousies and rivalries multiplied

so fast that it was not possible for any country to maintain its calm. Provocations were too sudden and too many. England ultimately decided to give up the gold standard in 1931. She was followed by the U. S. A., in 1933, and France in 1936 by which time the gold standard had completely collapsed. To stabilise exchanges, England established the Exchange Equalisation Account which in actual practice amounted to a rigid Exchange Control. Similar actions were, later on, taken by the U. S. A. and France. Thus, the international system of payments broke down and difficulties of international trade multiplied further.

In 1929 started the Great Depression. From the U. S. A. it spread to all the countries of the world. The depression led to a crash of prices. Volume of foreign demands shrank down and international trade became narrowly limited. Hardly had the world recovered from the after-effects of the depression when a recession set in 1936. There was a slight improvement in 1937 but in 1939 indications were towards another recession.

THE NEED FOR AN INTERNATIONAL MONETARY SYSTEM:—

It is clear that the inter-war period conditions could not be allowed to continue. They would have, in effect, in the course of time, led to serious international complications, not necessarily economic. During the course of the World War II itself much thought was being given to the solution of these international difficulties. It was, of course, clearly recognised that it was impossible to return back to the gold standard. It was thought desirable to evolve some system which could have most of the advantages of the gold standard without having anything directly to do with gold. Such a system could only be based upon international co-operation through a permanent institution.

There was one additional factor influencing economic and political thinking. It was thought that the post-war period would not be one of smooth sailing. There were expected to be tremendous problems of reconstruction and rehabilitation of the industries of many countries. Without some agency to promote and guarantee foreign loans these problems were not likely to be solved. Any post-war international plan that did not take this fact into account was likely to be unrealistic. But this could only be done through a co-operative organisation wherein not only the borrowers and lenders could be brought together but wherein they could be assured against each other.

Further more, there was definite heart-searching regarding the fundamental causes of the war. It is a significant point to note that all the modern wars are economic in origin. In the world as it to-day stands we can clearly distinguish

between two types of countries, the economically developed countries and the undeveloped or backward countries. Now these backward countries offer targets for economic exploitation to the developed countries who begin to fight amongst themselves for shares in exploitation. The fundamental cause for conflict is, thus, the presence of undeveloped countries side by side with the developed countries. If the backward countries can be developed the possibility of exploitation by foreigners automatically vanishes and a permanent durable peace can be secured. It was, therefore, realised that in the post-war period positive steps must be taken to develop the backward countries. It was argued that this development was not likely to injure the interest of the developed countries. In the transition period backward countries must depend upon the developed countries for essential raw materials, machinery, finances and technical advice. When the industrialisation matures there will still be adequate scope for international trading within the frame work of Comparative Cost advantage. Incidently, development of backward countries must go with more enlightened labour legislation and working conditions inside the factories. This particular feature must, inevitably, sooth some of the heart-burning during the inter-war period on this score.

THE INTERNATIONAL MONETARY CONFERENCE (1944) :—

The policy outlined above was being extensively discussed in the leading countries of the world. In fact, the Governments of the U. K., Canada and the U. S. A. prepared their own plans for the solution of economic problems in the post-war period. The discussion of these plans was, first of all confined to academic circles only. But in the mouth of July 1944, the government of U. S. A. called a conference of the representatives of all the allied countries. The conference met at Bretton Woods in U. S. A. Representatives of 44 nations including India participated in the discussions and finally an agreed plan was formulated. The agreed plan was split up into two parts. The first part envisaged the establishment of an International Monetary Fund. The second part proposed a plan for an International Bank for Reconstruction and Development.

OBJECTIVES OF THE CONFERENCE:—

The purposes of the Internatioal Monetary Fund, briefly described as the I. M. F., as set forth in Article One or the text are —

"(1) To promote international monetary cooperation through a permanent institution .. ..

(2) To facilitate the expansion and balanced growth of International trade, and to

promotion and maintenance of high levels of employments...of all members......

(3) To promote exchange stabilility, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members, and in the elimination of foreign exchange restrictions......

(5) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(6) In accordance with the above to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members."

Article One of part Two similarly defines the objectives of the International Bank for Reconstruction and Development, briefly called the World Bank. The purposes can be summarised as below:—

(1) To assist in the reconstruction and development of war ravaged territories of member countries including the reconversion from war to peace economy and the development of under developed economies.

(2) To promote private and foreign investments by means of guarantees or participations in loans, and to provide loans on suitable conditions out of its own funds for productive purposes in case the private investments do not come out.

(3) To promote long-range balanced growth of international trade and thereby assisting in raising productivity, the standard of living and conditions of labour in member countries.

(4) To conduct its operations with due regard to the effect of international investment on business conditions in the immediate post-war years, to assist in bringing about a smooth transition from war time to peacetime economy.

The agreement arrived at Bretton Woods required its ratification by the governments of the participating countries. It could not be given effect to unless 65% of the attending nations ratified it.

THE INTERNATIONAL MONETARY FUND :—

Quotas and Subscriptions :

The total resources of the Fund are fixed at 8800 million dollars. Quotas for the participating countries were laid down. In the case of some of the leading countries the quotas were :

Name of the country	In million dollars	Name of the country	In million dollars
U. S. A.	2750	China	550
U. K.	1300	France	500
U. S. S. R.	1200	India	400

Non-participating countries could join the Fund at a later time and in their case the quota was to be determined by the Fund. The quotas are to be revised by the Fund at intervals of five years or at the request of a member But for every change in quota a four-fifths majority of voting power is required and no member can be forced to accept the change.

Each member must pay either 25% of its quota or 10% of its net official holdings of gold and U. S. dollars, whichever is less, in the form of gold. The balance has to be paid in terms of its own currency which is to be kept in the central banks of the member countries.

THE FIXATION OF EXCHANGE RATES :—

Article Four of the Agreement provides that "the par-value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the U.S. dollars of the weight and fineness in effect on July, 1 1944" The exchange rate so fixed can be altered at the request of the member provided the change is not more than 10%. For a further change upto 10%, the permission of the Fund is necessary The Fund may or may not accept the member's request, but it must give its decision within 72 hours of the making of the request. Any change above 20% must be agreed to by the two-thirds majority of the members. Non-compliance of this rule carries certain penalties in the shape of ineligibility to use the resources of the Fund or, in extreme cases, expulsion from membership.

THE PURCHASING RIGHTS :—

Each member has the right to purchase from the Fund foreign currencies in exchange for its own currency to the extent of its full quota plus 25% more. In any given

12 months, however, a member can get from the Fund foreign currencies for not more than 25% of its quota. These conditions can, however, be waived in cases of extreme necessity or requirements. The Fund takes a serious notice of the fact if the currency purchased from it is used contrary to the purpose of the Fund.

In order to discourage members from taking recourse to frequent purchases from the Fund, the Fund has set up a system of sliding scale charges. The charges vary from ½% to 2½% as the average daily balance of a member country's currency held by the Fund gets in excess of her quota.

It was clealy recognized that in the post-war period some of the currencies might become scarce. It is, therefore, provided that, in case the demand for a particular currency can not be met by the Fund out of its own resources, the Fund can borrow the currency from the country concerned. But if the country concerned is not prepared to lend, the Fund may buy it with gold. In the case of a currency in respect of which the Fund finds itself completely unable to meet the members' demands, it has the right to notify to the members the fact and the causes of this scarcity. It may, then, ration the supply of the currency among the members.

THE PLACE OF GOLD IN THE ARRANGEMENTS :

The members of the Fund are not obliged to adopt the gold standard unless they so wish. A member has merely to express the par value of its currency in terms of gold as a common denominator of value and to promise not to buy gold at a price above the par value plus a prescribed margin, or sell gold below the par value minus the margin. There are, however, three connections which the arrangements maintain with gold. A portion of the quota by every member has to be paid in gold, the initial par value is fixed in terms of gold, and in the case of scarce currencies, there is a provision for buying them with gold. In addition, there is the Fund's standing offer to buy gold at official rates. The Fund's gold provisions thus, are not just window dressing. Gold plays a really important role as the Fund's most liquid asset and as a common anchorage for member currencies.

THE CONSTITUTION AND MANAGEMENT :

Article Twelve lays down that the Fund shall have a board of governors, executive directors, a managing director and a staff. The day to day work of the Fund is to be carried out by the Executive Board of Directors. This Board has twelve members of which five are permanent and are appointed by the countries having the largest amounts of quotas. Two seats go to the Latin-American countries, while the remaining five are filled by election. The election is to be by proportional representation. Each member has

250 votes plus one additional vote for each part of its quota equivalant to 1,00,000 U. S dollars. The principal office of the Fund is located in U. S. A. while the agencies and branch offices may be eatablished in the territories of other members. Any member may withdraw from the Fund through a simple notice. There is also a provision that the executive directors, by a unanimous vote, may suspend any of the operation of the Fund for a period not exceeding 120 days.

THE SCOPE OF ACTIVITY :—

The Fund is not entitled to deal with private individuals. A member can deal with the Fund only through its treasury, central bank, stabilisation fund or some fiscal agency and, on the other hand, the Fund can also deal through the same agencies. The Fund is prohibited from interfering in the internal economy of the member countries to restore equilibrium in their balance of payments. It is intended to introduce stable exchange rates in international trading. It provides a machinery for cooperation in regard to balance of payments and is prepared to give practical aid to countries faced with temporary deficits by lending them the necessary foreign exchange. But the borrowings from the Fund are limited to short-term requirements of funds for adjusting temporary disequilibria only.

INDIA AND THE I. M. F. :—

India was represented at the conference by a delegation headed by Sir Jersey Raisman, the then Finance Member of the Government of India. India's interest in the discussions was two-fold : as a member of the U. N. O., she was interested in establishing a machinery for international monetary and financial collaborations and, as an under-developed country, she wanted to have a satisfactory solution of her war balances and an effective voice in the management of the Fund with a view to developing her economy.

Indian delegation pressed for the inclusion of two specific provisions in the final draft of the agreement. Firstly, that the liquidation of the war debts should be included amongst the legitimate duties of the Fund, and secondly, that India should be given a permanent seat on the Executive Board of Directors. In other words, the delegation wanted the inclusion of the sterling balances within the perview of the Fund's organisation and the recognition of India as a country of high economic position and requirements. But the conference rejected the two Indian proposals. A keen and lengthy controversy started in India regarding the joining of the scheme. In fact, India took advantage of almost all the provision of the Fund to postpone the decision in the matter. Finally, in a resolution passed on the 29th. October, 1946,

the Central Assembly approved of India's membership of the Fund and the Bank.

FACTORS INFLUENCING THE INDIAN DECISION :—

The Indian viewpoint, as has been seen above, had not been conceded by the Conference. Indian quota was, however, fixed at a sufficiently high figure to ensure a seat for her in every election. Subsequently the U. S. S. R. decided to withdraw from the Fund and India naturally became entitled to a permanent seat. The dangers of standing aloof and letting important international decisions affecting world currency and exchange be taken without taking part in the making of these decisions were fully realised in the country. The obligations of the membership of the Fund were not such as to deprive India of her autonomy in economic policy or to tie her down to a policy of rigid exchange stability. The Fund had realised the need for restrictions on international trade in the transitional period after the war. It was further argued that the membership of the Fund enabled the country to become a member of the International Bank. This is immensely important as the Bank is an important source of long-term credit which are multilaterally convertible into other currencies and are, thus, available for purchases of machinery and capital goods in all the countries. The membership of the Fund also enabled India to get accommodation for financing adverse balance of trade in the immediate post-war period, a fact, which was clearly recognized as important.

There was, however, an element of truth in the contentions of the critics. It is a fact that the working of the Fund has not been free and impartial, the indications of which were visible even before the scheme was put into actual practice. The fixation of the quotas has been highly arbitrary. It is neither upon the pre-war volume of member's foreign trade nor on any post-war estimate of the same. The U. S. S. R. was given a smaller quota than the U. K. France and China were both favoured over India. It appears that the political distrust of Russia and the Western European economic and political collaboration with American domination was already in the minds of the Anglo-American powers.

ADVANTAGES TO INDIA FROM THE MEMBERSHIP OF THE FUND :—

The question of India's Sterling Balances was settled separately with Britain. In July 1949, a new agreement replacing the old one was signed between the two countries in London. The terms of the agreement surpassed the most optimistic expectations of India. The agreement covered the period of next two years. The British Government was

criticised in England for its over-generosity to India. We have spent our Sterling Balances much more rapidly than anybody expected them to be spent. At the end of 1951 we are left with only £ 360 million out of our once so large Sterling Balances. We have, thus, been able to find a suitable solution to one of our basic problems outside the organisation of the Fund. The solution of the second problem, viz., the acquirement of a permanent seat on the Fund's executive had also come about through the withdrawal of membership by the U. S. S. R.

Later experience has demonstrated the wisdom of the Government in joining the scheme of the Fund. Not only has it enabled us to acquire the membership of the World Bank which has financed many of our development projects but it has done a lot in accommodating us for the purpose of liquidating our adverse balances of payments in the post-war period. In the year 1948-49, India had a very heavy adverse balance of trade not only with the hard currency area but also with the sterling area. This was partly due to the liberal import policy followed by the Government during the year mainly to relieve the inflationary pressure. In one year, that is, March 1948 to March 1949, India had borrowed no less than 92 million from the I. M. F. In April 1949, she had exhausted her dollar purchasing authority with the Fund which means that she had borrowed what under the terms of the agreement she is authorised to borrow during the course of 12 months. We have been the most persistent operators on the Fund. It is, of course, a fact that India has drawn heavily mostly because of heavy imports of food-stuffs to remove the dangers of famines threatening the people. The accommodation offered by the Fund is short-term finance which is to be used for current purposes mostly to liquidate current deficit in the balance of payments.

India actually applied for a waiver of the conditions of purchase in her favour on the ground of the unfortunate food scarcity in the country and on the ground of the constant natural calamities of floods, draughts and earth-quakes. A mission under Mr. H. H. Parsons, the Fund's Director of Operations, was sent to India in March 1949. The mission was intended to investigate the possibility of granting India further dollar purchasing-authority. The mission reported favourably and India was given further accommodation.

There has been an improvement in our balance of payments position after devaluation in September 1949. We started simultaneously a two-sided programme of import curtailment and export expansion. Imports from the U. S. A were curtailed to the tune of Rs. 98 crores in the nine months ending with June 1950. Devaluation had cheapened our exports to the U. S. A. Moreover, the easing of the food

situation through the flow of imports from Burma, Pakistan, Canada and China and the granting of food loan by the U. S. A. reduced the necessity for dollar purchases. Of late, we have been continuously endeavouring to procure food in the soft currency countries. We have thus been able to pay a portion of our dollar loans to the Fund and it is expected that by the end of 1952 we shall be having a more pronounced equilibrium between our dollar exports and imports.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT :—

At the final session of the United Nations Monetary and Financial Conference at Bretton Woods, the delegates of the 44 nations participating accepted a draft plan for the world's first Bank for Reconstruction and Development. As has been stated above, the plan of the Bank envisaged a provision for long term finances. The Bank is to facilitate international borrowing and lending either out of its own resources or through its guarantees from outside its resources. As the name itself suggests, the Bank can finance reconstruction or reconversion of economy as also the development of new industries or development projects. There is, however, a provision to the effect that a prior membership of the I.M F. is essential before the membership of the Bank.

Quotas and Subscriptions :

The authorised capital stock of the Bank is fixed at $ 10,000 million. The capital stock is divided into 1,00,000 shares of 1,00,000 dollars each. Quotas to the major countries of the world have been allotted as below :

U. S. A.	$ 2,435 million	France	$ 450 million
U. K.	$ 1,000 ,,	India	$ 400 ,,
China	$ 600 ,,		

By the 31st. of March, 47 countries had joined the Bank and the total subscribed capital stood at $ 8,336 million.

The subscription of each member is divided into two parts, (1) 20% is to be paid in the beginning subject to call from the Bank for its operation and (2) the remaining 80% is subject to call when required by the Bank to meet its obligations. 2% of the price of each share is paid in gold or U. S. dollars and when calls are made the remaining 18% is to be paid in the currency of the member. When further calls are made the member has the option to make payment either in terms of gold or U. S. dollars or in terms of any other currency specified by the Bank for the purpose.

BUSINESS OF THE BANK :—

The Bank is prohibited to deal directly with private individuals or institutions. It deals only through the governments of the member countries. It must, however, be

remembered that the quota fixed for a member simply limits her obligations and administrative powers. It does not limit the amount of loans which a member can arrange with c through the Bank. At the same time, the Bank does not propose to replace private investments abroad. It rather wants "to promote private foreign investments by means of guarantees or participations in loans and other investments made by private investors." It gives loans out of its own resources only when private investments are not available. For the purpose of guaranteeing, the Bank charges a suitable commission to cover the risk and this is credited to the Bank's reserves. The idea behind the whole scheme is to co-ordinate and encourage private borrowing and lending. The Bank, at the same time, must satisfy itself about the genuineness of the borrower's demand and the reasonableness of the lender. Provisions for the guarantees or advancement of loans are subject to the following conditions:

(1) "When the member in whose territory the project is located is not itself the borrower, the member, or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal, the payment of interest and other charges on the loan."

(2) "The Bank is satisfied that, in the prevailing market conditions, borrower would be unable otherwise to obtain the loan under conditions which, in the opinion of the Bank, are reasonable for the borrower."

(3) A competent committee appointed by the Bank has recommended the project after a careful study of the merits of the proposal.

(4) "In the opinion of the Bank the rate of interest and other charges are reasonable and such rates and charges and the schedule for repayment of the principal are appropriate to the proposal."

(5) In making a guarantee, the Bank looks to the prospects of the borrower, the interest of the member in whose territory the project is located and the interest of the members as a whole.

(6) "In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risks."

(7) The loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.

The Bank is to act on a principle of multilateral clearing and multilateral trade. It imposes no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members. Every member gets the

chance to borrow from the most favourable market and can spend the borrowed funds anywhere. There is, therefore, no curtailment to the member's freedom once the loan is granted and is not spent contrary to the purpose of the Bank.

CONSTITUTION AND MANAGEMENT :—

The Bank has a Board of Governors, executive directors, a president and a staff. The powers of the Bank vest in a Board of Governors wherein each member appoints a governor and an alternate. The day to day work is conducted by 12 executive directors of which 5 are appointed by five members having the largest number of shares and the remaining seven are elected, as in the case of I. M. F., through the proportional representation system, each member having 250 votes plus one vote for each stock of share held. The executive directors select a President who can neither be governor nor an executive director. In addition, there is a provision for an advisory council of not less than seven members representing various interests and nationalities selected by the Board of Governors. Whenever a loan is applied for, a loan committee, consisting of one or more members of the technical staff of the Bank and one representative of the country in whose territory the loan is located, is formed Any member can withdraw from the Bank either by withdrawing from the Fund or by giving a written notice of withdrawal from the Bank.

THE WORLD BANK IN RELATION TO INDIA :—

India became an original member of the Bank in December 1945. India's initial contribution made by November 1946 came to $ 40 millions, payable $ 8 millions in gold or U. S. dollars, $ 12 millions gold and $ 20 millions in Indian Rupees. The Bank has been a source of great help to the under-developed countries of Latin-America and Asia. Its loans are for long periods ranging from 6½ to 30 years or more. For all practical purposes, the Bank has acted as a business enterprise on 'good risk' basis. The biggest loan of $ 250 millions has been given to France. A total loan of $ 263 millions has been given to the Netherlands, Denmark, Luxemburg and Chile. Mexico got a loan of $ 34. 1 m. for electric development.

Prior to granting loans the Bank sends a Mission to the applicant member country. The mission investigates three things :—

(1) the soundness of the economy of the country,
(2) the soundness of the project and
(3) the fact whether the project is one eligible to receive help from the Bank.

In the beginning most of the loans were for reconstruction but gradually the problems of under-developed countries

assumed greater importance.

Almost all the loans are in dollars because goods to be purchased with borrowed money are available in the U. S. A. A mission of the Bank was sent to India in February 1949 to investigate the genuineness of India's application for loans for improvement in her railway transport and for her many multi-purpose development projects. The mission recommended in favour of the loans. Consequently, the Bank granted three distinct loans of $ 34 m. for railways, $ 18. 5 m. for further development of river-valley schemes and $ 10 m. for agricultural developments. The first of these loans was obtained in August 1949, the third in September 1949 and the second in April 1950. Yet another Mission was sent under Mr. Black to enquire into the genuineness of a loan for the Damodar Valley project and other development plans. The mission has again recommended favourably. A similar Mission is now touring Ceylon and is likely to recommend loans to Ceylon for her development projects.

THE CONCLUSION :—

It is obvious that the I. M. F. and the World Bank are both giving much valuable help to the countries of the world. It is a fact that, probably, but for their help, the economic difficulties in the post-war period would have been tremendous. There is, however, an under current of a certain not altogether desirable movement. The withdrawal of the U. S. S. R. is regrettable, more so as it leaves the Fund and the Bank incomplete by depriving them of the membership of the East European countries and the Communist China. In addition, it is becoming increasingly clear that the so called democratic control of the two institutions is illusory. The U. S. government and the American dollars is the power behind everything. There is a definite bias in favour of the Anglo-American interests. The case of France who devalued her currency despite the Fund's decision to the contrary has tended to increase the feeling that all is not after all well. The high hopes for the development of Asia have proved to be misconceived.

India cannot complain of any discriminatory treatment from the two institutions. But it will neither be sound nor desirable for India to look to her interests alone. Moreover, it is being gradually realised that the U. S. loans tend to bring political and other pressures which the Bank so scrupulously tried to avoid. The hopes of achieving a stable and permanent peace are becoming indeed rare.

SUGGESTIONS FOR FURTHER READING :—

1. India and International Currency Plans : V. K. R. V. Rao.
2. Bretton Woods and After : V. S. Krishna.
3. Monetory Theory : Halm.
4. Text of the World's Monetary and Financial Conference.
5. History and Problems of Indian Currency : D. K. Malhotra.
6. The Annual Reports of the I. M. F. and the World Bank.
7. India's Foreign Trade : L. K. Jha.
8. Sterling Balances : C. N. Vakil.
9. The Monetary System of India : B. E. Dadachanji.
10. Indian Economics : Dewett and Singh.

2

THE DEVALUATION OF THE INDIAN RUPEE AND ITS AFTERMATH.

Synopsis :—

1. Introductory :—The layman's bewilderment at the suggestion of Devaluation, the panicky situation created by inflation in India.

2. The meaning and significance of Devaluation.—Two meanings of the value of money ; devaluation a reduction in a currency's external value.

3. Why Devaluation is usually resorted to ?—Devaluation as a corrective of adverse balance of trade, devaluation to restore or establish a new parity of exchange, devaluation in retaliation, devaluation for reflation or recovery.

4. Devaluation of the Sterling—the division of the World into dollar area and sterling area, the adverse balance of trade of the sterling area, British credit is exhausted, wide dollar gap. Britain comes to the end of tether, rumours of devaluation injure British trade. The Pound is devalued by 30·5%. India, Burma, Ceylon, South Africa, Australia and Canada devalue their currencies, Pakistan refuses to devalue.

5. Subservience of the Rupee and Indian Economy to the Sterling—the dejure rupee-sterling link becomes defacto after April 1947 ; the lack of an independent foreign trade financing arrangement in India.

6. Devaluation of the Rupee—the need for reconstruction of the Indian economy after the war, the acute inflation in India, India becomes a creditor country, the development of industries ; India has an adverse balance of trade with U. S. A. ; Our exports and imports are inelastic.

7. Justification for Devaluation—devaluation a defensive measure, danger of the overvaluation of the Rupee, the membership of the sterling area. The other side of the picture—devaluation likely to increase inflation, the burden of dollar debts increases, our need is for more imports not exports ; choice between the disadvantages of devaluation and the disadvantages of no-devaluation.

8. The Aftermath—trouble with Pakistan, Indo-Pakistan trade deadlock, scarcity of Jute and Cotton in India, recognition of the Pakistani rate ; our balance of trade improves but not due to devaluation but due to export drive and import restriction, trade is diverted to the sterling area.

9. The Conclusion—disadvantages of devaluation are many, some people advocate revaluation, readjustment a painful process.

Introductory :—

When on the 20th of September, 1949, we were suddenly told that the rupee had been devalued, the man in the street was confronted with a peculiar situation. He wanted to know what precisely the implication of this devaluation was, and in fact what devaluation itself meant. In a country like India where prices are moving up every day and where almost daily one more commodity is added to the list of things difficult to procure, it is natural that anything which has something to do with money or monetary policy must arouse interest. It is a fact of common knowledge that the average man regards, and rightly too, the present phenomenon of rising prices as an outcome of our policy of monetary expansion during the war and after. All types of opinions have been expressed regarding the outcome of devaluation and of its effect on the Indian economy as a whole. In general, the position has been that the devaluation has not been considered as a positive advantage but simply the negation of a disadvantage in the alternative. To a very large extent, the then Indian Finance Minister, Dr. John Matthai has been responsible for such an attitude. To-day after a lapse of more than two years, we are in a slightly better position to assess the whole position with regard to devaluation. A much clearer picture of how the Indian economy, on the whole reacted to it is now before us.

WHAT DEVALUATION REALLY MEANS :—

It seems desirable at the very outset, to have a clear idea about the meaning and significance of the term devaluation. It might save a lot of confusion which is almost always connected with every financial term. Normally devaluation means lowering down of the value. But since devaluation is used in connection with money or currency, it is necessary to understand the significance of the 'lowering down the value of money.' The most elementary definition of the 'value of money' tells us that the term 'value of money' means the general purchasing power of money. It consists of the amount of goods and services which a specified unit of money can, in general, buy. But value of money or of currency, for the matter of that, can be understood in two

Lastly, a country may choose to devalue its currency for raising up the domestic price levels for the purposes of reflation or for the purpose of price stability. If due to over-production or such other cause there is a depression in the domestic market so that the internal demand coupled with the existing external demand cannot use up all the output, devaluation through an increased external demand may boost up that demand. As a matter of fact, at the inflationary peak or at the bottom of deflation a psychological turn of economic lever acts wonders. Thus, when depression has reached a definite scale devaluation may bring the reflationary forces at work.

THE DEVALUATION OF THE POUND STERLING :—

So far we have been dwelling on the theory. Let us now switch over to facts. To begin with, we start with a picture of the world trade on the eve of devaluation. The striking feature of this picture is the division of the world outside the Soviet bloc into two zones, the sterling area and the dollar area It is interesting to note that the balance of payments of the former with the latter is persistently adverse. The European countries suffered all the ravages of war. The countries of the East, on the other hand, were handicapped in their industrial development during the war and after by a combination of a number of factors. There was a universal scarcity of certain essential raw materials, the capital goods and the technical know-how. In addition, many of them suffered from the ravages of war like the countries of the west and faced serious internal disorders after the war. The result was that U. S. A. alone emerged out of the war as an exporting country. It was she that the whole world depended upon for the essential programmes of industrial rehabilitation, reconstruction and expansion. Thus the exports, from the dollar area continued to far outweigh the imports into that area. That is the beginning of all trouble, and to show how it started we shall specifically pick up the United Kingdoms who forced us to devalue the rupee

DEVALUATION IN THE STERLING AREA :—

On the 18th. of September, 1949, Britain announced the devaluation of the pound sterling by 30·5% so that it became equal to $ 2·80 instead of $ 4 03 Immediately all the members of the commonwealth and the countries of the Sterling Area tried to readjust their exchange rates with the dollar. India, Australia Burma, Ceylon, the Netherlands, South Africa and Sweden devalued to the same extent as the U. K., Belgium devalued her currency by 12% and Canada, herself a hard currency country like the U. S. A., but a member of the Sterling Area, devalued her currency by 10%. There were only two exceptions, Japan, under the U. S. occupation, did

not lower the external value of the yen in terms of the dollar while Pakistan took a no devalution decision. The announcement of devaluation by the U. K. created a temporary dislocation of exchanges in the European capitals. Czechoslovakia announced a new rate for her crown in terms of the sterling. In France and Sweden foreign payments were temporarily suspended.

CAUSES FOR THE DEVALUATION OF THE STERLING :—

Sterling as a currency had acquired a peculiar name in the world money market. It was considered as invincible, a currency the value of which could not be open to question. So much, indeed, was the confidence in the sterling that many countries had been preserving their foreign exchange earnings in the form of sterling in London. Some of these countries were not even members of the Sterling Area. U.K, therefore, could devalue the sterling only at the risk of lowering down the financial prestige she enjoyed abroad. In fact upto the last minute, Sir Stafford Cripps, the then British Chancellor of Exchequer, was discounting reports regarding the devaluation of the sterling. There must, naturally, be some compelling reasons for Britain to devalue.

The fact is that in 1924 England had overvalued her currency in terms of the currencies of the gold standard countries. From 1924 to 1931 England made a prolonged and hard struggle in maintaining the external value of the pound. In this process she lost huge quantities of gold and was finally forced to give up the gold standard and devalue the sterling in 1931. This was done partly to liquidate foreign balances. U. S. A., France and the Gold Bloc countries subsequently carried out depreciation of their currencies to help the internal economic situation after the Great Depression. The devaluation of the pound then did indeed cure the overvaluation but it could not serve the other end mainly because currency depreciations were wide spread. From this time onwards, the sterling area has found it difficult to achieve a balance of trade with regard to the dollar area. Even in 1938, the total deficit was as much as £ 130 millions. But in the post-war period the dollar gap assumed alarming proportions. From £ 226 millions in 1946, it rose to £ 1,024 millions in 1947. By a drastic cut in the expenditure of dollar by all the countries of the Area it was brought down to £ 423 millions in 1948. In 1949, it was estimated running at £ 600 millions annually. At the same time the Central Reserves of the Sterling Area were fast falling down. They fell from £ 552 millions, on March 31, 1948, to £ 406 millions on June 30, 1949. On the 14th. July 1949, Britain announced a cut of £ 100 millions in her imports. On the 4th of August following, the Commonwealth and Sterling Area countries announced a similar cut in the imports from hard

currency countries to the tune of £ 75 to £ 100 millions. There was, however, still a deficit of nearly £ 400 millions. Meanwhile strong rumours regarding the devaluation of the sterling got current. The buyers in the dollar areas tried to postpone temporarily their demands for British goods in expectation of lower prices after devaluation. England suddenly found her exports to hard currency countries falling further as a result of this It is estimated that in August 1949, alone, Britain lost £ 1·5 millions worth of trade on this account. Indeed, it appeared desirable to oblige the rumour-mongers in the context of the difficulties created by them.

This enormous dearth of dollars was due to several reasons. After the World War II the dependence of the sterling area upon the dollar area for imports had greatly increased. On the other hand, the relatively higher price-levels in the sterling area were impeding exports. In addition, during the war the American industry had attained a much higher technical efficiency with the result that an American, now produces, on the average, four times as much in an hour as a worker in an European industry and six times as much as in agriculture. Production in the sterling area ran out of tune with production in the dollar area. Inflation and the scarcity of goods are the well known experiences of the area and more so in India. The result has been that the demand of non-dollar countries for dollar goods far exceeds the demand of dollar countries for non-dollar goods.

Before the war Britain used to liquidate the deficit on her balance of trade account through her invisible exports in the form of overseas investments, and the export of banking, shipping and insurance services. The dollar earnings of the empire countries could also be utilised for the same purpose. During the war, however, these sources were dried up through destruction or sale for financing the war. Great Britain for some time made a heroic effort to meet the deficit by drawing on the U. S. credit. This credit which was originally expected to be drawn upon till 1952, was exhausted early in 1948. The Canadian credit and a gold loan of £ 80 millions by South Africa were used for the same purpose ; but by the end of July 1949, they were also very nearly exhausted. Britain, therefore, began to utilise the Marshall-Aid payments and drawings on the International Monetary Fund. But it appeared that she had come to the end of the tether. Marshall Aid could not continue indefinitely and the International Monetary Fund had declared the dollar a scarce currency and could not allot to any country more than a rationed quota. Had there been time, in the long run, Britain could have remedied the situation by a reduction in her cost through

improved efficiency. But the immediate situation was serious. Speaking in the House of Commons immediately after devaluation, Sir Stafford Cripps had remarked, "We have improved our efficiency, but not quickly enough. The time is now so short and our resources have got so low that a change in the dollar rate is the only way in which we can get our prices down quickly enough."

The position of Great Britain must also be understood in the light of the fact that she emerged from the war a debtor country. Huge amounts of Sterling Balances had accumulated and Britain felt herself morally bound to pay for them. It is a fact that quite a good part of British exports in the post-war years has been used in liquidating these balances and thus Britain earned no foreign exchange in return for them. The importance of this fact becomes all the more serious when we consider the fact that a portion of the sterling released in payment was convertible into dollars. Thus, the dollar gap for Britain increased not only through her own imports of the dollar goods but also through such imports by her creditors.

This was the situation in which England found herself by the middle of 1949. A Commonwealth Finance Minister's Conference met in London in July 1949. It was agreed by all the countries represented to make a 25% cut in their dollar purchases, although it meant a great hardship to the starving and economically under-developed countries like India. But a cut in dollar purchases was simply a "mark time" act. Immediately after the Commonwealth Finance Minister's Conference, the representatives of Great Britain, United States and Canada met in Washington. It was here that a ten point programme was drawn up to bridge the dollar gap by 1952. The programme envisaged a lowering of tariffs by the U. S. A., a raising of internal price level by her and a stock piling by her of commodities like rubber and tin to enable the sterling area to export more. Britain had, however, by now, made up her mind on devaluation which was announced immediately after the Washington Conference.

THE RELATION OF THE RUPEE AND THE INDIAN ECONOMY WITH THE STERLING :—

The Rupee Sterling Link :

The rupee sterling link is quite old. The currency system of India during the British regime has been so evolved as to make the Indian rupee subservient to and dependent upon the British pound. The close relation has all the more been cemented during the period after 1914. Indeed, we have so much been accustomed to regarding our rupee only in connection with the sterling that any other

approach seems unnatural. It will do well to remember that except for a short time after 1927 we never had a gold standard in the real sense of the term. We have had, at the best, the gold exchange standard wherein the value of the rupee was not defined directly in terms of the currencies of other gold standard countries but was only indirectly defined through the sterling. For the foreigners, the rupee, in fact, never seems to have had an independent existence. The rupee credit or the rupee market are terms unknown in the international money market. After the breakdown of the gold standard in 1931, India came to have what is often called a full-fledged Sterling Exchange Standard. In real practice it means that the exchange of the Indian rupee with the foreign currencies has been through the sterling and not directly or independently. This fact is significant inasmuch as it shows the utter dependence of our trade on the sterling and the U. K. We have never developed a foreign trade financing arrangement of our own; and since the services of the sterling and the British bankers were at our disposal for the asking, we never realised the fact that there could be any harm in it. We did not endeavour to develop a rupee market because the sterling market was only too ready to accommodate us.

On April 8, 1947, the Indian rupee was delinked from the sterling. It means that a separate independent status was recognized for the rupee in the international market. As a member of the International Monetary Fund, we defined the value of the Indian rupee in terms of the gold separately. But the Government of India, at the same time took care to see that although the dejure link between the rupee and the sterling would thus be broken the defacto link should continue. The gold value of the rupee was, therefore, fixed with reference to the stabilized exchange rate of Re. 1 = 1/6 d., although according to the purchasing power parity the rupee was worth only 8d. or 9d. Thus, for all practical purposes, the rupee sterling link continued despite the freedom of the country.

SUBSERVIENCE OF OUR ECONOMY TO STERLING:

In the matter of foreign trade and for the purpose of monetary policy in that respect we are, thus, dependent upon the behaviour of the sterling. The rupee has to dance in harmony with the sterling for two important reasons: In the first place, as a member of the sterling area there are certain duties incumbent upon India, and secondly, the rupee is known to the international monetary market only through the sterling. The lack of independence in the matter of foreign exchange, naturally, forces our hands in the matter of monetary policy. So long as the 'sterling qualities' of the sterling continued, it did not very much matter. But

the moment the sterling became panicky and dependent upon the dollar, the rupee had no alternative but to follow suit unless India was prepared to withstand the difficulties of a rupture which, in fact, would have meant a dislocation of foreign trade for a considerable time and which also meant a gradual development of the rupee market not altogether" without tears."

THE INDIAN RUPEE IS DEVALUED:

It will be in the context of this rupee sterling link that we have to understand the devaluation of the rupee in India. As is evident, there is no legal compulsion for the rupee to move in step with the £. But at the same time practical considerations merited such a step. For a better understanding of the problem we shall do well to note the economic consequences of the World War II in India and to have a comprehensive picture of the Indian economy on the eve of devaluation.

CONSEQUENCES OF THE WAR:

The following consequences are noteworthy :—

(1) Indian economy had been put on a war footing. The whole system was geared on to supply the needs of the army and the war. At the end of the war, therefore, India needed a reconstruction and a reconversion of her economy to a peace time pattern and a replacement and repair of her industrial equipment and transport.

(2) An acute inflation was raging inside the country due to an excessive issue of paper notes against sterling credit arising out of allied war purchases in India. With 1937 as the base, the Monetary Fund index number of wholesale prices in India in June 1948 was 354, as against 180 in the U. S. A. and 218 in the U. K. Correspondingly, the cost of living index number in India stood at 289 as against 165 and 179 in U. S. A. and U. K. respectively.

(3) There was constant deficit financing in India. The budgetary deficit was financed out of taxes, internal loans and such other measures which tended, to some extent, to increase the inflationary gap. The food subsidy, the refugee relief and the development plans were mainly responsible for the budgetary disequilibrium after the Independence.

(4) At the end of the war India had become a creditor country through the accumulation of sterling balances of the order of Rs. 1700 crores after the liquidation of her sterling debt of the past.

(5) The war brought about an acute shortage of food-grains which continued in the post-war years. This necessitated huge imports of food from outside, more so, since the

surplus areas of the Punjab and Sind went over to the share of Pakistan.

(6) Finally, the National Government in the post-war period took up a more enlightened policy of the industrialisation of the country. Fresh avenues for production in the manufacturing branches were opened.

DOLLAR SCARCITY VIS-A-VIS INDIA :—

The facts stated above make it clear that in the post-war period, India's capacity to export had been greatly diminished whereas her needs for imports to relieve starvation, to ease inflation and to carry on industrial reconstruction and expansion had been considerably increased. Like the U. K. we were faced with a scarcity of dollar exchange. In the year 1948, the total value of India's exports to the U. S. A. was a little over £ 250 millions. Imports in the same year amounted to £ 270 millions. In the first quarter of 1949, the exports showed no signs of improvement while imports displayed an unmistakable tendency to increase. The trade balance was thus likely to become more adverse in future.

On the other hand, we must also take into account the fact that our exports and imports were inelastic. Without serious economic disturbances inside the country it was not possible to bring about a change in either of them. Our exports mostly consist of raw materials which we could not afford to increase without imparing our own industries. We are in short supply regarding the consumer's goods and any increase in exports would mean further inflation. Similarly, we could only ill-afford to curtail our imports which consisted of such essential commodities as food grains, machinery, vehicles and industrial raw materials. In 1948, the first three of these were responsible for 23%, 22% and 14% respectively of the total imports. Besides a reduction in imports was likely to lead to the raising of the prices.

Two days after the devaluation of the sterling, however, the Government of India announced the devaluation of the rupee in the *same proportion* as the *sterling*. The sterling value of the rupee was maintained at 1s. 6d. but in terms of the dollar it fell from 32 cents to 21 cents. While announcing this devaluation in the Indian Parliament, Dr. John Matthai, the then Finance Minister, admitted that it was only a defensive measure. "I feel,' he said, "that in this matter, I have had to act, not to conviction; born of logic necessarily, but, so to speak, by the compulsion of events . .." Devaluation of the pound had come as a great surprise. The U. K. Government did not even care to take the commonwealth countries into confidence. The Government of India committed very nearly the same mistake in not informing Ceylon, Burma and Pakistan of her decision to devalue.

The result was that while Ceylon and Burma immediately delinked their rupees from the Indian rupee. Pakistan refused to fall in line.

THE JUSTIFICATION FOR DEVALUATION :—

The Government of India has tried to justify their devaluation decision not on the ground of bridging the dollar gap ; nor did they think that the measure was likely to increase the country's aggregate exchange earnings. They maintained that India's membership of the sterling area necessitated the step. The argument further ran : "India's trade both export and import being so largely a trade with the sterling area countries, and the price level being already high, it was clear that the rupee could not be allowed to appreciate against sterling without undermining India's competitive position and endangering the market for most of her exports, and, ultimately, being compelled to reduce the volume of imports further.

"Over and above the pure economic factors of relative competitive position, current expectations that India could not be able to devalue in the face of the action taken by other countries would have acted as a powerful psychological barrier to any transaction at the old rate of exchange and trade might have been brought to a standstill. There was thus, no alternative for India but to follow the other sterling area countries and devalue the rupee as a defensive measure."

Thus, the Government of India justified the action both on economic grounds and on the ground of the country's membership of the sterling area. But the arguments were all on the negative side. It was sought to be established that non-devaluation would have meant over-valuation in terms of the sterling and a great loss in trade. It was also apprehended that since we had no independent foreign trade financing arrangements of our own and since the rupee had no defacto international status, a possibility for an overall trade dislocation did exist.

THE OTHER SIDE OF THE PICTURE :

As has already been noted, devaluation stimulates exports and discourages imports. But the situation in India is that too much money is chasing too few goods. Therefore, devaluation, by reducing the quantity of goods inside the country, partly through increased exports and partly through reduced imports must, inevitably, increase the inflationary tendency. This is a serious danger in India where, according to many estimates we have very nearly reached the stage of hyper-inflation.

At the same time, it must be said as opposed to the policy of devaluation that the need of the hour for us was not

increased exports so much as increased imports. Our exports, as pointed out before, are mostly of raw materials which would do well to remain inside the country to help industrialisation, and which, at any rate, we cannot afford to increase any more as they are inelastic in nature. Our imports for food can only be cut down at the risk of starving the people. And any reduction in capital goods or capital replacements must, naturally, hamper our industrial reconstruction and development. Devaluation, thus, leads us to a position where we have to realise a much lesser value for our exports of the same volume and where we have to pay a much higher price for the same volume of imports vis-a-vis the dollar area. The pity is that we cannot afford to change it. Further more, devaluation increases the burden of our dollar loans from the I. M F. and the World Bank. It increases the rupee value of dollar commitments. It tends to depreciate that part of our Sterling Balances which is convertible into the dollar. The other portion of our sterling balances loses much of its real value if, as a consequence of devaluation, prices rise in Britain. Above all, it causes an economic and political conflict with a neighbour like Pakistan who refused to move with us in the matter.

It would appear that disadvantages of devaluation far outweigh the advantages of devaluation. But this was not the alternative before the Government of India. The choice really was between the disadvantages of devaluation and the disadvantages of no devaluation. It was a devil and deep sea position. Little wonder, therefore, that the Government of India was a bit nervous and rather hasty in its devaluation decision.

THE AFTERMATH OF DEVALUATION :

Trouble with Pakistan :

Pakistan remained unmoved by the universal dev luation of the currencies of the sterling area. As a result the Pakistani rupee became the equivalent of 2Sh. 1. 9d or 1. 44 Indian rupee. The Government of India refused to accept the new rate for the Pakistani rupee. It was believed that considerations other than economic swayed Pakistan in the matter. Pakistan, however, tried to justify her action on the ground that she had a favourable balance of trade, that she had relatively a much lower price-level than India and that this decision was bound to result in cheap purchases of industrial equipment. Several other considerations, e. g., the belief that Indian demand for jute and cotton from her was inelastic, that thereby her debt to India would be reduced and that she would be able to bring about deflation, also seem to have influenced Pakistan. At any rate, this no-devaluation decision created a complete trade dead-lock between the two countries. Without caring to note how

Pakistan ruined her Jute growers and created so many other difficulties for herself by the action, we have still to admit that she created enormous problems in the matter of Jute, Cotton and food for India. The political leaders in India were influenced in their approach to Pakistan more by sentimentalism and prestige than by cold economic reasoning. They forgot that Pakistan as a supplier of raw materials and food and with no programme for industrial development was in a much better position than they expected in the no-devaluation decision. At any rate it was possible for her to cause head-ache to the Indian industrialists. Subsequent events showed that Pakistan was successful in the attempt. India had finally to accept the official rate for the Pakistani rupee. The I. M. F. after detailing various reasons has come to the conclusion that the Pakistani rate is tenable. The new Indo-Pakistan Trade Agreement of 1951 recognizes the exchange rate of Rs. 144 (I) = Rs. 100 (P). Her balance of trade with India is expected to be favourable to the tune of Rs. 50 crors thereby.

THE BALANCE OF PAYMENTS AND INFLATION :

The period of time that has passed since devaluation is not enough to fully reflect the effects of devaluation on the balance of payments. Sir Chintaman Deshmukh attributes the recent improvements in our exports to devaluation exclusively. From September 1949 till June 1950 the improvement was to the tune of Rs. 172 crores. But the official view is not wholly correct. The improvement was mostly due to restrictions on imports. In the period, above stated, we imported goods worth Rs. 371 crores as against Rs 469 in the corresponding period in the previous year. On this basis the improvement works out to *only* Rs. 74 crores. Even in this case, we have to remember that the improvement is in respect of the sterling area wherein our exports of tea and cotton textiles, as a result of our export drive have earned more Thus, there has been no improvement in our dollar earnings. In the currrent year the position is not very much different. There is no doubt that we are now able to export to the U. S. A. some of the goods we previously could *not* export but that has not affected our dollar earnings materially.

On the other hand, the inflationary gap inside the country has widened. The anti-inflationary measures adopted by the Govt. in 1948, became absolutely ineffective after devaluation. The country is finding it difficult to stabilise the prices. The price index has now touched new heights. The general effect of devaluation has been a greater scarcity of goods and the diversion of India's trade from the dollar area to the Sterling Area. The Commonwealth ministers'

Conference on the raw material held in September 1951 is likely to accelerate the diversion tendency further.

THE CONCLUSION:

The above analysis makes it clear that India has on the whole lost rather than gained as a result of devaluation. The so-called advantages have been simply illusory. There is, at the present time, quite a loud demand from some of the responsible quarters inside the country, including Dr. Matthai, the former Finance Minister, for the revaluation of the rupee. But if devaluation was bad revaluation, at this stage will be worse, for it means that we shall again have to pass through a painful process of readjustment. Moreover, for some time we may be faced with a serious trade deadlock like Pakistan. Even from a psychological point of view it seems below our prestige to retrace our steps to the Pakistani position.

SUGGESTIONS FOR FURTHER READING:—

1. Devaluation : Professor C. N. Vakil.
2. From Hyper-inflation to Devaluation: S. K. Muranjan.
3. Devaluation : D. gosh
4. Devaluation (Theory and Practice) : Lalwani.
5. Devaluation (a tale of disappointments): Saihadhikari.
6. Forty Questions and Answers on Devaluation Compiled by the Eastern Economists.
7. Indian Economics : Dewett and Singh.
8. An Outline of Money : Crowther.
9. Devaluation of the Sterling : Hawtrey.
10. Economics in Practice : A. C. Pigon.

3

THE INDIAN FISCAL POLICY

Synopsis.

1. Introductory—in the earlier period India was made to follow the traditional British policy of *laissez-faire* and free trade which injured her economy.

2. The Evolution of Fiscal Freedom in India—the first stage began with the constitutional reforms of 1919, a Fiscal Autonomy connection was adopted in 1921 and in the next year a Fiscal Commission was appointed to report on protection, commission recommended Discriminating Protection.

3. Discriminating Protection Analysed—the Fiscal Commission laid down a triple formula, protectionism was a success, the commission had recommended an ad hoc Tariff Board.

4. Discriminating Protection in Action—between 1923 and 1939, the iron and steel, cotton textile, paper and sugar industries were protected, protection was refused to heavy chemicals, oil, coal, cement and glass, the burden of protection has been on the well-to-do classes.

5. The Post-War Position—during the war there was no necessity for Protection, an interim Tariff Board was appointed in 1945 which reviewed cases of 44 industries, in 1947, the Board was reconstituted and many new functions were assigned to it, protection to a number of industries was granted, it was withdrawn in respect of steel, cotton textiles, paper and sugar

6. The Future Fiscal Policy—the Fiscal Commission of 1950 recommended a permanent Tariff Board to be called the Tariff Commission, a new conception of tariff consistent with planning and need for industrial development has been advocated, the commission has recommended many new principles of Protection and many new safeguards for the consumers.

7. A Digression on Imperial Preference—the idea started from 1903, Fiscal Commission recommended it on a small scale, then came the Ottawa Pact and the Indo-British Trade Agreement of 1939, the new Fiscal Commission has recommended rationalisation of Preferences.

8. The Conclusion—the history of fiscal policy shows that it was not aimed at economic benefits to India, greater use of bilateral trade agreements should be made, India's fiscal policy in future will be governed by two factors, the obligations of the membership of I. M. F. and economic planning.

Introductory :—

The Traditional Laissez-faire and Free Trade.

The story of India's economic policy before the advent of the British must make an interesting reading. But apart from its historical importance it does not serve any useful purpose for solving the problems of our present economic life. Briefly stated, India was, in the past a prosperous country with widely scattered small industrial units. She had extensive trade relations with the countries of the world. The banking institutions were very well-developed and the patrongage of court was available to powerful guilds of merchants and craftsmen.

The East India Company in the beginning followed a sympathetic policy regarding the Indian industries because it discovered that there was great demand for Indian handicrafts the European markets. But gradually the policy changed into one of definite hostility. With the onset of the Industrial Revolution in Europe the old economic beliefs, industrial patterns and trade structures underwent change Raw materials from the countries of the East including India had to be rushed to the expanding mechanised industries of Europe and at the same time, markets for the manufactured articles had to be searched and developed. The result was that India was sought to be developed as a raw-material producing base and as a fairly secure market for the products of British industries. Naturally, Indian industries had to go partly because of the unofficial campaign of boycott of Indian manufactures in Britain and partly because of the competition from machine made goods which was intensified by the withdrawal of patronage to the Indian industries by the court and the development of transport.

From the middle of the 19th century upto the outbreak of the First World War, India's economic policy was one of complete non-interventionism with regard to both trade and industries This was the traditional policy which was being followed in England As a matter of necessity England had adopted the policy but gradually it grew into a principle of universal validity. India, like other colonies was not in a position to assert her freedom. *Laissez-Faire* was imposed upon her without sufficient regard for the circumstances of the country. The free trade policy was followed with such rigour that when after the Indian Mutiny of 1857 the need

for customs duties arose for revenue purposes such duties were levied in such a manner as to rob them of all potential protectionism. Where manufactured articles were produced by Indian industries, the customs were counterbalanced by excise duties of the same magnitude. The process of the annihilation of the domestic industries was, thus, completed and India became an agricultural country, pure and simple. The transport development policy enunciated by Lord Dalhousie further exposed the infant, unorganised and unpatronised industries of India to power competition from Europe.

EVOLUTION OF FISCAL FREEDOM IN INDIA.

The first stage in the evolution of protection in India was the famous Parliamentary Resolution of 1917 which initiated the constitutional reforms based upon Montague-Chelmsford Report. The principle of self-determination for India embodied in the report implied also freedom in respect of financial and commercial policy. The Joint Select Committee of the Parliament examining the India Bill of 1919 remarked, "Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain."

A Fiscal Autonomy Convention was adopted in 1921. The Convention directed the Secretary of State for India to avoid, as far as possible, interference in the fiscal policy of India in all those matters where the Government of India and its legislature were in agreement. But this did not improve the matters. As a rule all tariff questions were first of all discussed by the Government of India with the Secretary of State and then alone they were placed before the legislature. Armed with the Convention and as a preliminary step towards deciding the guiding principle of fiscal policy the appointment of a Fiscal Commission was decided in October 1921 "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference and to make recommendations." The tempo of public agitation in favour of protection was, in fact, forcing the hands of the Government and something had to be done in the matter.

The Report of the Indian Fiscal Commission was published in 1922 and the main recommendations of the Commission were accepted by the Government of India in 1923. The Commission after a careful study of the whole situation had found that the industrial development in India had not been in keeping with the size, population and natural resources of India. Industrial expansion was recommended for a

variety of reasons. The Commission felt that such an expansion would remove the unstable character of Indian economy arising out of too much dependence upon agriculture. It would, further, tend to foster the growth of capital, public revenue, employment and national character. The Commission, however, came to the conclusion that there should be no wholesale protection to industries. Every industry must be carefully examined before it becomes entitled to protection. The Report runs: "In the interests of the consumers generally and particularly of the masses, in the interest of agriculture, in the interest of steady progress and for the maintenance of a favourable balance of trade, the policy of protection should be applied with discrimination so as to make the inevitable burden on the community as light as is consistent with the due development of industries and to avoid abrupt disturbances of industrial and commercial conditions." The Commission, it appears, was convinced that protection must necessarily impose a burden on the community which it sought to minimise. They were also against the development and growth of economically unsound industries. The principles evolved by the Commission came to be designated as the principle of Discriminating Protection.

DISCRIMINATING PROTECTION ANALYSED :—

The "Triple Formula."

The Fiscal Commission laid down three important considerations for the grant of protection to an applicant industry :—

(1) "The industry must be one possessing natural advantages such as abundant supply of raw materials, cheap power, a sufficient supply of labour or a large home market. Such advantages will be of different relative importance in different industries but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and, therefore, the natural advantages possessed by Indian industry should be analysed carefully in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community."

(2) "The industry must be one which, without the help of Protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend Protection. The main object of Protection is either to develop industries which

otherwise would not be developed or to develop them with greater rapidity."

(3) "The industry must be one which would eventually be able to face world competition without Protection. In forming an estimate of the potentialities of this condition being fulfilled, the natural advantages referred to in condition (1) will, of course, be considered carefully. The importance of this condition is obvious. The Protection we contemplate is temporary Protection to be given to industries which will eventually be able to stand alone."

In addition to the above, the Commission laid down a few more conditions of lesser importance. There are two classes of industry which were to be protected irrespective of the Formula: (i) the industries essential for national defence and (ii) the basic or key industries of which the products are utilised as raw materials by numerous other industries. Similarly, industries which were operating under Increasing Returns or industries that tended to meet the entire needs of the country in the course of time were to be given preferential treatment. Import duties against dumping, bounty-fed goods or goods coming from countries with devalued or depreciated currency could also be levied.

A Critical Estimate of the Principle.

The majority of the Commission did not want the industrial development of India where such development adversely affected British interests. The Commission, in fact, plainly stated : "Unless the U. K. maintains its export trade heart of the Empire will weaken and this is a contingency to which no part of the Empire can be indifferent." This explains why Protection was advocated with so many reservations in such a halting manner. In no other country such conditions have been laid down for the selection of industries for Protection. Indeed, the Indian Fiscal Commission 1949—50 has been led to remark that by the Fiscal Commission of 1922, "Protection was not visualised as an instrument of general economic development but was viewed as a means; enabling particular industries to withstand foreign competition when they applied for Protection. The result is somewhat top-sided development.........it was not possible for basic and key industries to develop. It is also likely that the Protection of isolated industries without a positive effort being made, at the same time, to provide facilities for the establishment of allied industries added to the total burden of the community......."

The Commission had *inter alia* recommended the establishment of a Tariff Board to examine the case for Protection of an applicant industry. The government did not think it proper to appoint a permanent Board. *Ad hoc* Tariff Boards

were appointed for each case and frequent changes were made in the personnel. This prevented "the taking of long views, the accumulation of experience and the building of an efficient body of technique and procedure." The Board had to work within a rigid frame-work of rules and had very little freedom of action. Specially in respect of the new industries the application of the principle became a difficult job.

DISCRIMINATING PROTECTION IN ACTION :—

Protectionism upto the outbreak of War in 1939.

The first industry that came under the examination of Tariff Board was the steel industry. It was discovered that the industry satisfied all the conditions laid down by the Fiscal Commission. Protection was, accordingly recommended. In 1924, the Steel Industry Protection Act was passed. During the first three years of protection, the industry made substantial progress and affected considerable reduction in the cost of production. Subsequently, the position was reviewed and in 1928 protection was granted to the manufacture of wagons and underframes of steel castings. In 1932 protection was further extended to wire and wire-nails industry and finally in 1934 the whole position was reviewed and continuance of protection was recommended uptil 1941.

In respect of the cotton textile industry the policy adopted was more half-hearted. As a result of the recommendations of the Fiscal Commission, the excise duty on cotton piece goods was abolished in 1926. Meanwhile, Japan had become a very important competitor in Asia and India. The Mill-Owners' Association demanded protection to the industry in 1928, but the Government refused to take any action despite the recommendations of the Tariff Board appointed for the purpose. This was done mainly to safe-guard the interests of the Lancashire cotton industry. It was only in April 1930 that the Cotton Textile Industry (Protection) Act was passed. But a provision was made for a preferential treatment to British cotton piece goods. The Great Depression compelled the Government to raise the duties in 1931 and this process continued till June 1933. It was, at long last, in 1934 that partly as a result of the recommendations of the Tariff Board and partly as a result of the Indo-Japanese Agreement and the unofficial Pact between the Lancashire and Indian textile interests (the Mody-Lees Pact) that substantial protection was granted to the cotton textile industry.

The Bamboo Paper Industry (Protection) Act of 1925 based upon the recommendations of the Tariff Board granted protection to the paper industry. The Act was reviewed in 1932 and 1939.

After an exhaustive and careful enquiry, the Tariff Board in 1931 recommended protection to the sugar industry.

The Sugar Industry (Protection) Act, 1932, gave effect to the recommendation of the Board. The subsequent changes in the excise duty on sugar in 1934, 1937 and 1939, however, reduced the degree of protection considerably. Nevertheless the industry made great progress.

The following table compiled by Dr. Matthai gives a very good idea of the extent of progress between 1922—23 and 1939—40 :—

	Steel (ingots)	Cotton (piece goods)	Sugar (from cane)	Match	Paper
	1000 tons.	Million yards.	1000 tons.	Gross (lakhs)	1000 tons.
1922—23	131	1,725	24	8	24
1939—40	1,070	4,013	1,242	220	70

The above increase took place despite the Great Depression when production in most countries of the world declined.

Industries Refused Protection during the Period.

The first industry to be refused protection in 1924 was the magnesium chloride industry in respect of which the Tariff Board argued that the industry was not likely to do away with protection eventually. The major industries denied protection were : (i) the heavy chemicals ; (ii) oil ; (iii) coal ; (iv) cement ; and (v) glass.

In respect of the heavy chemicals industry, the Tariff Board appointed for the purpose had recommended in 1931, in favour of protection on the ground that it was a basic industry. The Government, however, did not agree to it except for a brief period of 18 months from 1st October, 1931 to 31st March, 1933. Similarly, in respect of the glass industry, the Tariff Board had discovered that the case was one fit for protection and had recommended accordingly. But the Government refused to accept the recommendations. In the case of oil and cement industries, the Board discovered that the cause for trouble was internal competition and, therefore, did not recommend protection. In the case of coal industry the Tariff Board observed that the industry was in difficulty due to over-development and protection was not, therefore, called for.

The Burden of Protection.

Only a passing review of the progress during the period would convince, that the favourable position that India was able to maintain, was the effect of the policy of discrimination. The immediate success of the policy could silence even the worst of the critics. But sometimes, an attempt is made to prove that the higher prices which the consumers have had to pay as a result of protection more than counterbalance any advantage which protection might have conferred. The answer to this criticism is not so easy as many people believe. As Dr. Matthai has pointed out, "There are certain elements in the burden of Protection which, in the nature of things, are almost impossible to assess accurately. . unless we can at the same time determine the extent to which foreign manufacturers have reduced their prices in the Indian market in consequence of Protection and also the level of prices which might have ruled in the country if no Protection had been granted, no correct estimate can be made of the burden of Protection." Dr. Matthai comes to the conclusion that the burden in respect of Protection has been borne mainly by the well-to-do classes in the country.

THE POST-WAR POSITION :—

During World War II, the cessation of imports necessitated the starting of new industries to fill the gap In addition, the war needs themselves created a great demand for industrial expansion. During the war the question of Protection did not arise because foreign goods could not be imported. The Government of India, however, assured the new industries of Protection and help if need arose after the termination of war. The industries already enjoying protection at the time of declaration of war were assured of its continuance under the Protective Duties Continuation Act. During the war itself, the Government contemplated the establishment of a machinery to take up the problem immediately after the war.

The Interim Tariff Board of 1945.

In pursuance of the war time promises the Government of India appointed a Tariff Board in November 1945. In examining the case of an industry for protection, the Board was required to enquire of the following :—

(*i*) whether the industry is established and conducted on sound business lines;

(*ii*) whether the industry would be able to carry on successfully without protection or State aid within a reasonable time; or

(*iii*) whether, if it is an industry whose development is necessary in the national interest, the cost of protection and tance would not be excessive for the community.

The Board was expected to make recommendations for a period of not exceeding three years. It was asked to specify the necessary form, extent and way of giving help in case an industry could establish its claim for protection. The Board was also required to examine the likely effect of protection recommended on the consumers and other industries.

As is clear from the conditions which the Board was expected to take into account while recommending protection, there was a greater liberalisation of the attitude. The conditions were not as excessive as in 1923. The Board was appointed primarily for the purpose of examining the cases of war-time industries. In actual practice, it also considered the question of continuing protection to industries established before the war and receiving protection. The enquiries of the Board were of a summary nature. Of the total number of 49 cases, it could consider as many as 42 during the 1½ year of its existence. The contemplated changes in the constitution and finally the partition of the country made it difficult to implement most of the recommendations of the Board. In general, the Board confined its activities to investigation of claims.

THE RECONSTITUTED TARIFF BOARD :—

The Tariff Board was reconstituted in November 1947, Mr. G. L. Mehta was appointed as the President and Dr. H. L. Dey and Dr. B. V. Narayanaswamy as members. Originally, in addition to the existing functions, the Board was to have two more functions: (i) to report to the Government as and when required, factors that lead to increase the cost of production of manufactured Indian goods as against imported articles and (ii) to advise the Government as and when required, on measures whereby internal production may be secured on the most economical cost basis.

Subsequently in August 1948, the following new functions were added :

(*i*) to inquire into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices ,

(*ii*) to recommend to Government measures necessary for the protection of Indian industries against dumping ;

(*iii*) to study the effects of tariffs, specific duties and concessions granted to foreign countries on various articles ;

(*iv*) to report to the Government on combinations, trusts, monopolies and other restraints on trade and to suggest ways and means of preventing such practices ; and

(*v*) to maintain a continuous match over the progress of

the protected industries and to advise if and when necessary modifications in tariffs and assistance in respect of them.

The Board examined a large number of old and new industries and tried to examine the whole position with due regard to the interests of the consumers. Protection has been granted to 34 war-time industries as a result of the Board's recommendations. They include such industries as alloy, tool and special steel, cotton machinery, soda-ash, aluminium, calcium chloride, bichromates, photographic chemicals, plastics, calcium laciate, potassium permanganate, starch, stearic acid, oelic acid, etc. In addition, the electric motors, the bicycles, sewing machines, motor vehicles, batteries, and grinding wheels industries have also been protected. The Board conducted enquiries into the glassware, slate, sericulture, artificial silk, gold and silver thread, sugar, cotton-cloth and yarn, steel, paper and superphospates industries.

In respect of the six old industries the Board recommended withdrawal of protection. This has affected cotton textiles, iron and steel, paper, magnesium chloride, silver thread and wire and sugar. In respect of the last protection was granted for one year and it has been withdrawn from April 1950.

THE FUTURE FISCAL POLICY :—

Recommendations of the Fiscal Commission 1949-50.

The new Fiscal Commission has examined the working of the protective tariffs in India. It has tried to assess the present requirements and future prospects of Indian industries in the context of the world economic situation. The Commission has recommended creation of a permanent tariff authority to be called, the Tariff Commission. It will be a statutory body. It should consist of 5 members including a Chairman. It should be given powers to co-opt advisers in particular cases. In addition to the already existing functions of the Tariff Board, it has to enquire into the variation of protective or revenue duties and into the general effect of protection on prices and the economy. It must also study other effects of protection on the cost, output, quality of products and the expansion of the industry protected. The Commssion has been given powers for summoning witnesses and a sufficiently large technical and administrative staft has been placed at its disposal.

The New Concept of Protection.

The Fiscal Commission has laid down certain principles in regard to tariffs in future. There is almost a complete departure from the old policy of 1923. These principles have been evolved in the light of India's new constitution which pescribes "that there should be no unemployment or

under employment in the country, that the natural resources should be fully utilised, that there should be progressive increase in productivity, that special measures should be adopted for the development of agriculture, cottage industries and small-scale industries on co-operative lines and that, at the same time, there should be large-scale industrialisation with a diversified economy." In the light of the above, the Fiscal Commission has recommended as follows :—

(1) Defence and other strategic industries should be protected on national considerations irrespective of the cost.

(2) Basic and key industries should be given protection in the form to be recommended by the New Tariff Authority.

(3) In protecting other industries care should be taken to examine the economic advantages available to the industries and then actual or probable cost of production and the reasonable time within which they will be able to dispense with protection.

(4) Compensatory protection may be given to an industry which uses the products of a protected industry.

(5) Agricultural industries may be given protection in the national interest.

(6) The Commission must assure that the protected industry does not take undue advantage of protection.

The Fiscal Commission feels that complete reliance should not be put on tariff duties alone. It recommends the setting up of a Development Fund to which a portion of the revenue collection from protective tariffs should be credited. Out of this Fund suitable subsidies may be granted in certain cases such as :—

(*i*) when domestic production meets only a fraction of the total domestic demand ;

(*ii*) when the commodities in question are essential raw materials ; and

(*iii*) when in an industry requiring protection there are only special grades or qualities which alone require protection and which cannot be separated.

In order to safe-guard the interests of the consumers the Commission lays down that the quantity and quality of output as also the price must, in the case of protected industries, be carefully be examined. Such industries must be made to affect technological improvements and must avoid anti-social activities.

A DIGRESSION ON IMPERIAL PREFERENCE :—

Imperial Preference, in the words of Baldwin, means "the expansion of Empire trade brought about as far as possible by the lowering of tariff barriers as between the

several members of the Empire." It was for the first time in 1903 that Imperial Preference was considered in relation to India. It was, however, decided that neither India nor England was likely to gain by preferential tariffs between themselves. The First World War brought home to Britain the necessity of pooling together the resources of the Empire. The Indian Fiscal Commission, 1922 while arguing that India was not likely to gain on account of any such preference recommended a token preference on her part on a few articles as a proof that she realised her position as a member of the Empire. The Commission was, however, against any general scheme of preference. Despite this, preference was given to British steel goods in 1927 and British cotton textiles in 1930. Thus, India had to fall in line with the Dominions and other Empire countries.

The Ottawa Pact.

In 1932, Britain decided to give up free-trade. She adopted protection with preference to the Empire countries on a reciprocal basis. It was argued on behalf of India that she was not likely to gain in respect of her exports which consisted of food-stuffs and raw-materials. Any reduction in tariff duties was not to lead to any greater demand for them. Her imports, on the other hand, consisted of manufactured goods, any preference on which must inevitably increase their competitive power against Indian manufactured goods. But at the same time, India had competitors against her exports inside the Empire. The non-acceptance of the Pact would have jeopardised her exports to the U. K. The Agreement was, therefore, signed initially for three years but in 1936 it was renewed and extended upto 1939 when the Indo-British Trade Agreement replaced it.

The new Agreement was rejected by the Indian Legislature but it was certified by the Governor-General. The following were the terms of the Agreement :

(*i*) India granted 7½% to 10% preference on 20 articles including chemicals, paints, motor-cars and cycles from U. K.

(*ii*) U. K. agreed to purchase Indian Cotton in proportion to Indian imports of British Cotton Textiles.

(*iii*) A general most-favoured-nations clause treatment was agreed to between all the Empire countries.

(*iv*) U. K. agreed to give 10% to 20% preference to certain categories of Indian goods and permitted free entry in respect of some others.

This Agreement was a distinct improvement on the Ottawa Pact. But after six months of its being signed the

war broke out. The Indian Fiscal Commission 1950 has found it difficult to assess the full effects of this Agreement on Indo-British trade relations. The Commission has, however, argued that as things now stand and specially in view of the necessity of diverting our trade to the sterling area to solve the problem of dollar shortage, the Indian Government should review the whole question of Preferences. Such Preferences should be based on purely economic considerations and on a basis of mutual interest.

THE CONCLUSION :—

The history of our Fiscal Policy clearly brings out the fact that the British Government gave only a second-rate importance to the Indian interests. Protection was agreed to under pressure of political events and where the policy clashed with the British interests it was accordingly modified. The device of the Imperial Preference was pushed through the back door to snatch any substantial degree of protection. One of our long-standing grievance has been that the Tariff Board was an *ad hoc* body whose recommendations were often arbitrarily rejected by the Government of India. The National Government has done well to remove this defect. We can now be sure of better efficiency of the Board now called Commission. Furthermore, the extension of the functions of the Tariff Commission, must, inevitably, lead to much better results.

One great drawback in our fiscal policy in the past has been the absence of bilateral trade agreements. Before the war we had one such agreement with Japan. In 1941, India signed a trade agreement with Burma. In the post-war period, the National Government has, however, found it desirable not only to conclude a series of agreements with Pakistan but has concluded such agreements also with countries like Indonesia, Japan, Australia, Afghanistan and a number of other countries. Thus, the ball has been set rolling.

Our fiscal policy in future will be governed by two factors. In the first place, as a member of the International Monetary Fund and Havana Convention, India will have to make such reductions in the tariff duties as they might prescribe. Secondly, as we are embarking upon a planned development of our national economy we shall have to plan our foreign-trade also. For this purpose new types of tariffs judiciously selected and properly operated will have to be devised. It is, of course, true that our problem to-day is one of importing more. But imports are necessarily limited by our capacity to export. Above all, if any programme of industrial expansion is to make progress, we shall have to devise a suitable protective machinery.

SUGGESTIONS FOR FURTHER READING :—

1. India's Foreign Trade : B. N. Ganguli.
2. Indian Fiscal Policy : B. P. Adarkar.
3. The Indian Tariff Problem : H. L. Dey.
4. Report of the Indian Fiscal Commission 1921.
5. The Indian Year Book, 1950.
6. India's Trade : C. N. Vakil.
7. Report of the Fiscal Commission 1950.
8. India and Imperial Preference : B. K. Madan.
9. Indian Economics : Dewett and Singh.
10. Tariffs and Industry : Dr. John Matthai.

4

THE PROBLEM OF FOREIGN CAPITAL IN INDIA

Synopsis :—

1. Introductory—it is one of the most ticklish problems for free India, on the one hand there is need for it while on the other hand general sentiment is against it, two types of capital, entrepreneur and loan, the second creates no trouble.

2. The Growth of foreign capital in India,—three stages, Merchant Capital upto 1800, Industrial Capital in the 19th century and Finance and Loan Capital in the 20th century's estimates are diffient, Reserve Bank estimates are Rs 596 crores in June 1948

3. The Need for Foreign Capital—India's capital resources fall short of demand, she has to incur loans even in respect of her trade ; foreign capital helps industrialisation, takes initial risks, brings new techniques and generates healthy competition.

4. The Disadvantages of Foreign Capital—they are : political domination, exploitation of country's resources, dangers to defence, non teaching of technique and discrimination ; we want foreign capital for our industrial expansion, proper safe-guards, remove the disadvantages of foreign capital.

5. The Control of Foreign Capital in India—a policy of gradual elimination and pursuation is the best; control can be studied in the pre-independence and post-independence periods ; the minorty of Fiscal Commission recommended some restrictions which were later endorsed by External Capital Committee of 1924 ; in 1948, the National Government announced measures to encourage and control foreign capital which were amplified in 1949 and 1950, repatriation facilities have been granted to capital invested in approved projects after January 1, 1950.

6. The conclusion—the pertinent question is cannot we follow the examples of Russia, Japan and China to develop independently of foreign capital ? Foreign capital despite professions to the contrary must bring in political influences.

Introductory :—

The political emancipation of India has created a large number of problems of various characters and magnitudes. One of the most ticklish problems in that respect is the problem of foreign capital in India. The problem has a two fold significance. Practical economists agrue that our capital requirements for industrial development being great and the supply of indigenous capital being inadequate foreign capital must be retained and rather invited to fill in the gap. Such people, however, differ in respect of the conditions under which foreign capital should be obtained and the form and magnitude in which it will be desirable to have it. On the other hand, the attitude of the layman and the politically suspicious man is different. Foreign capital, at least to a certain extent, brings in foreign economic interests which are not always in harmony with the national interests. Unless foreign capital is made to pack up bag and baggage, these people argue, India's economic emancipation will not be complete. And, of course, political freedom without economic liberty has no significance. Thus, the country and the Government has not only to lay down rules for the import and retention of foreign capital, they have also to prove the very justification for it. The latter becomes all the more important in view of the fact that the national sentiments have been all through directed against foreign capital and the *Swadeshi* movement left no stones unturned to give the dog a bad name and hang him. Pure, undiluted nationalism, thus abhors this vestige of foreign imperialism while the material sagacity discovers in it friend in need.

Now, there are two ways in which foreign capital enters a country. Consequently, such capital takes two different shapes. The foreigner may himself come, invest his funds and work the venture, so to say, the foreign capital comes in the form of entrepreneur investment. As against this, the foreigner may not himself participate in the venture. He may, however, advance loans to the domestic producers, industrialists or businessmen. His interest in that case does not extend beyond the taking of a fixed sum in the shape of interest and, of course, the repayment of the principal. In such a case the interest of the foreigner is not thus direct or immediate. It is remote and indirect. In India most of the foreign capital entered and exists in the former shape. The latter is more recent and much less in volume. It must, however, be said that it is the entrepreneurial capital that really brings in foreign influences and that creates foreign interests rested in the domestic economy. The loan capital is incapable of much harm. Very often when foreign capital is condemned, the critics forget that their usual denunciation does not take into account the case of this loan capital. It

must be said that, in all fairness, loan capital should and must be encouraged if it is procurable on reasonable terms. When economists argue against foreign capital they usually take up the entrepreneurial capital into account.

THE GROWTH OF FOREIGN CAPITAL IN INDIA HISTORICAL :—

Broadly speaking, foreign capital penetrated in India in three different forms. Consequently, three important periods stand out prominently in the history of foreign capital in India. The first is the Merchant Capital of which the period extends till the end of the 18th century. The second is the Industrial capital which tried to exploit the economic resources of the country. It made beginning in the 19th century and it continues in its earlier form even to-day. The third is the Finance and Loan Capital which is comparatively of modern growth and in respect of which a strong plea for retention and encouragement is often made.

The First Phase.

The Portugese were the first to bring foreign capital in India, when they started a factory at Calicutt in the year 1500. They were followed by the British East India Company, the Dutch East India Company and the French Companies a century later. They were all trading Companies whose main business was not industry but trade. They found manufacturing industries of a developed type in India and, therefore, in addition to trade in commodities like spices, indigo and salt petre, they began to trade in such industrial products of the country as muslin, linens, calicoes, jewels, embroideries, and woollen and silken manufactures. In the course of long and arduous struggle the British East India Company gradually acquired a monopoly of the country's European trade.

But this trade position did not continue for long. Towards the close of the 17th century there grew a strong agitation in England against the import of manufactured goods from India. The Industrial Revolution had created a new situation. England wanted not manufactures but raw materials for her fast expanding industries. On the other hand, she wanted to sell the manufactured articles. The merchant capitalists had, therefore, to change the shape of their trade and they began to bring manufactured goods to India. Instead of patronising the native industries as they had been doing earlier, they actively began to crush them. Meanwhile, the British Government also took away from the East India Company the monopoly of trade in India by the Regulating Act of 1773. Thus ended the first phase of the history of foreign capital in India.

The Second Phase.

At the end of the 18th Century the Indian market was

thrown open to free private enterprise by outsiders as a result of the *laissez-faire* policy of the British Government. Locally, people were weak and nervous and capital was shy, most of the savings disappearing into hoards or gold and silver ornaments As peace and security ensued British capitalists began to pour their funds into India. Initially such capital was used in raw material producing industries of jute, coffee and tea plantations. But gradually, as need arose for greater quantities of raw materials and under markets for manufactured goods the development of transport system became essential for reaching the heart of the country and for ensuring a speedy flow of exports and imports. Lord Dalhousie recognised the importance of such transport development and acted accordingly. The Indian Mutiny of 1857 further increased the necessity for increasing transport services especially railways for political and military reasons. The guarantee system in the railways made investments in India not only safe but also gainful. The wealth accumulated during the course of trade now began to come as industrial capital for railways, roads, irrigation and coal mining.

Gradually, it began to be realised by some of the capitalists in England that the carrying of jute and cotton to England and bringing their manufactures back involved double transport costs which could be avoided by starting industries in India itself. These were the beginning of our jute and cotton textile industries.

In the same period, we notice the growth of modern banking in India. The three Presidency Banks and a few Exchange Banks were established. These banks always discriminated against Indian industrialists and businessmen and became a great source of strength to the foreign capitalists. It is, however, estimated that the industrial capital in this period did not, in general, develop the modern industry. It was used mainly in transport and raw material production. Thus upto the first World War most of the foreign capital although industrial capital, was not cannalised into development of industries.

The Third Phase.

With beginning of the 20th century British capital began to flow into India increasingly as industrial capital in the truer sense of the term. It was the period of the development of finance and loan capital Three reasons generally account for this change. In the first place scope for remunerative investments in respect of transport and plantation had nearly reached its limits. The earnings on capital invested on railways had been either reduced or the investments were purchased by the Government of India. Secondly, the British markets were shrinking in India. As Mr. Palme

Dutt has calculated because of the strong competition by so many countries under free trade, the U. K's share in India's imports decreased from 64% in 1913 to 35% in 1931 and 26% in 1942. The British, therefore, tried to make good the loss by the increased income from investments and loans to industries in India. Thirdly, the first World War demonstrated the necessity for the development of industries in India not only to meet essential repuirements in the absence of imports during the war but also for military, political and strategic purposes.

With the grant of protection to the industries after World War I investments in India became more profitable. During this period, although the Indian capital also began to come forward, foreign capital continued to enjoy unchallenged monopoly in foreign exchange, banking, insurance, shipping, tea, coffee, rubber and jute industries. The British capital participated in the Indian industries not only directly but also in the form of advances from the managing agents. The Europeans were the first to introduce the managing agency system and a majority of such agencies was held by them.

Extent of Action.

It has been briefly hinted above as to in which of the branches of the national economy foreign capital predominates. It is rather difficult to estimate the extent of foreign capital in the past mainly because no efforts were made on the official basis in the direction. Unofficial estimates differ so widely and are often based upon such insufficient data that it seems difficult to believe them. In a recent survey, the Reserve Bank of India estimated the extent of foreign capital at Rs 596 crores upto the end of 1948. Of this amount U. K. alone accounts for Rs. 376 crores, U. S. A. Rs. 30 crores, Pakistan Rs 21 crores and Canada Rs. 9 crores. To this smount must be added the recent loans from the I. M. F. and the World Bank. If the total value of the U. S. food loan is also taken into account, the estimate will run into high figures. But since the I. M. F. and U. S. loans mentioned above, are not investment loans, their problems must be considered separately.

THE NEED FOR FOREIGN CAPITAL

Scarcity of Finances in India.

It is a recognised fact that there is a paucity of investment funds in India. While the need, for the industrial development of the country is great the available capital resources fall short of the requirements. Normally, by a continued favourable balance of trade a country can get foreign finances. In India, of late, the heavy food imports have necessarily created a wide deficit in the balance of trade.

If is a fact that industrial finances apart, even to keep up our import programme to relieve the inflationary pressure we require loans from outside. The First Five Year Plan is just out. It estimates need for foreign assistances to the tune of Rs. 290 crores to restore the pre-war levels of consumption and export at the end of five years. For a slight increase in consumption additional Rs. 300 crores will be needed for which foreign assistance will have to be sought. It is realised that a proper utilisation of our vast economic resources necessitates huge imports of foreign capital.

Inside the country due to a variety of reasons not enough finance is available for industries. In general, the people are poor and their saving capacity is limited. Then there is the traditional shyness of Indian capital most of which does not come up for investment in industries. The banking services are inadequate and most of the banks deal in short period trade finance and not in long-term industrial loans. Indian businessmen are traders first and industrialists last and as between various fields of lucrative investment the first choice is commerce not production. All these factors combine together to create a serious gap between the capital required and the capital accumulated. Moreover, the requirements of foreign capital in India increase further because of the fact that her exports are of an inelastic nature and every need for foreign exchange must, at least for a considerably long time, be met out of foreign loans. As things are we have to import all the four commodities from abroad, food, raw materials, machinery and technicians. Naturally the demand for foreign exchange and loans increases.

Advantages of Foreign Capital.

Foreign capital has been and can be useful to India in a number of ways :—

(i) Foreign capital has helped the process of industrialisation in India. It is likely to play a still more important part in the future development programmes of the national government. Such capital is welcome when there is a dearth of indigenous capital and poverty in the face of vast idle resources continues. It may be argued that through foreign capital countrys' resources will be exploited for the benefit of the foreigners who will amass the profits. But the argument neglects the fact that a substantial portion remains inside the country in the shape of wages and the assets created by such capital. The two taken together may more than cover the payment for the capital and interest. In India railways, canals, roads and so many other things developed by foreign capital are to day a great and permanent source of income even when the foreign capital has been repaid. Thus, the use of foreign capital results in increased national wealth and prosperity.

(*ii*) Usually in the early stages of the development of industries the pioneering work is based with great risks and often results in losses. The case of iron and steel and glass industry in India is a useful example of it. The foreigner may take the initial risks and later the indigenous capital may take up the established branches. This argument, however, presupposes that the foreigners do not create vested interests and can forego their interests for the benefit of Indian people. Such charities, to say the least, are to expect too much.

(*iii*) Foreign capital brings with it techniques of production not obtaining in the country. It brings in new types of machines, technicians and processes of production, which, if they are dissipated to the people of the country confer many benefits. But this argument does not apply to India. Past experience has shown that the foreigners have sedulously guarded their business secrets. Secondly, the argument casts a reflection on the capacity of Indians to manage their business on independent lines. At least in respect of cotton textile and iron and steel it has been proved that Indians can demonstrate originality and intelligence.

(*iv*) Foreign capital may generate a healthy competition. The indigenous industrialists may be made to give up the slumber and, in order to compete with the foreigner, may have to effect improvement and efficiency. The argument, of course, presupposes the non-existence of special advantages to foreigners.

THE DISADVANTAGES OF FOREIGN CAPITAL:

Alongwith the benefits conferred by the foreign capital it has also some grave dangers, If the experience of China, Egypt and Iran have any meaning, foreign capital must be permitted with caution. The following abuses and disadvantages are the most important:—

(*i*) The greatest evil is political in nature. It is argued "Flag follows the Trade". In other words, political domination is simply a logical corollary to economic control. In apprehension of loss of their vested interests they opposed the national movement for political emancipation in India. They never identified themselves with the country and owed allegiance outside. The way in which British oil interests are acting in Iran, a fact that is threatening the very existence of political freedom of the country and the way in which British vested interests have interfered in the internal and external policies of the Middle East countries leaves no doubt about the undesirability of foreign capital. We can, however, argue that times have now changed and we shall on no account allow all those free chances which were permitted in the past to foreign investors and their countries. But the danger is that in the context of present world

shortage of international investments we may not get adequate supplies of the same on our own terms.

(ii) The development and exploitation of natural resources through foreign capital often results not in benefits to the country concerned but to the foreigners. Thus what really belonged to the country and would have benefitted her goes out and helps the foreign capitalist.

(iii) Foreign capital in defence and basic industries is doubly dangerous. It often exacts too high a price for industrialisation. The national interests of India, political and economic have often been sacrificed to the interests of foreign entrepreneurs. The Government of India realising the importance of this argument has decided to take a direct hand in defence and basic industries.

(iv) Foreign capital and enterprise has seldom offered opportunities to Indians to occupy high and responsible position in their industrial concerns. They have not taught us the art of management and the technique and secrets of business. It is no use to remain "hemers of wood and drawers of water" only.

(v) The foreign concerns have often discriminated aginst Indian trade and industries. The malpractices of the exchange banks in this connection are well-known. Besides, favouritism in trade and commerce has hindered the growth of indigenous business enterprise.

The Correct Position.

The rapid industrialisation of the country has now acquired a definite place in the country's plans for economic development. This necessitates huge supply of fixed capital in the form of plants and machinery and working capital for the purchase of raw materials and for defraying the usual recurring expenses of the business. The internal resources of capital do not meet our demand. We cannot do away with the services of foreign technicians. We must import more of capital goods. We are already experiencing foreign exchange difficulties which will increase in future if industrialisation is to go ahead. All these factors have tended not only to create the necessity for foreign capital but they have also, to some extent, softened public opinion against the use of such capital in India. A careful examination of the abuses of foreign capital will show that most of them are not connected as such with foreign capital but with foreign control. If proper safe-guards are provided against the evil effects of such capital and if such capital can be divorced from foreign control and influence following it, there may be no harm and much good may come out of it.

THE CONTROL OF FOREIGN CAPITAL IN INDIA

Theoretical.

The need to control foreign capital to remove its glaring abuses it certain. The question now is what short of foreign capital we need to restrict, how far and in what manner. It is, of course, evident that there can be no objection to the entry of foreign capital in India in the form of loans given to Indian entrepreneurs on their undertaking to repay the principal with interest. This is open to very few abuses. The real thing is the entrepreneurial capital which is very pronounced in the country and which is the most likely form liable to be exported from the foreign countries. As things are, it is not possible for us to displace the foreign capitalists. Notwithstanding the magnitude of foreign capital which is considerable so that indigenous capital resources are unable to buy it, Indians are inadequately equipped to shoulder the entire risk and responsibility of management. It is, therefore, desirable to follow a gradual process of elimination of foreign enterprise. It will also be desirable to associate Indians to the existing or future foreign enterprises to learn the technique, to get the necessary training and to acquire the experience of management. It is precisely in this way that our control of foreign investments should proceed. It will be wrong to make the foreigners panicky. India must follow a tactful policy of mild, slow and definite reduction in the mischief making aspect of foreign capital.

Government Policy Regarding Foreign Capital.

The Government policy can be studied separately into two periods—the policy followed before Independence and the recent policy of the National Government. There must obviously be great difference of approach in respect of the two. In the past Government showed very little interest in the industrialisation of the country and there was a definite bias in favour of the British foreigner. The policy of protection was only half-hearted and was justified also by the advantages that it gave to the British capitalist in India. The National Government has the national interests in view and wants to reconcile the same with rapid industrialisation of the country. Let us first of all take the earlier period.

The Indian Fiscal Commission 1922, failed to discover any wide-spread feeling against the use of foreign capital in India. It however, encountered two arguments, firstly that under protection sheltered foreign interests would work against the political aspirations of the country and, secondly that such interests would not train up Indians. The majority of the commission recommended free entry of foreign

capital but the minority wanted some restrictions of which the following three are the most important :—

(i) that such companies should be incorporated and registered in India in rupee capital ;

(ii) that there should be reasonable proportion of Indians on their Boards of Directors ;

(iii) that they should offer reasonable training facilities to Indians.

The External Capital Committee in 1925 endorsed the recommendations of the minority. The committee *inter alia* divided external capital in India in three categories, that which was loan capital, that which was investment capital competing with Indian capital and that which had acquired special privileges and concessions to exploit particular portions of India's resources. In respect of the first two the committee did not like to go beyond the minority recommendations of the Fiscal commission. In respect of the third, restrictions aimed at the fact that Indians should be given some shares in the foreign companies and they should be permitted to send a specified number of Indian Directors on the Boards.

Nothing positive was, however, done by the Government in the direction. Occasionally there were outbursts of public opinion. Mr. Palme Dutt has estimated that "about 40 to 50 crores of rupees every year have been sent out of the country as interest charges on the investment or reinvested to swell the already accumulated capital," during the period between the wars. The foreign investors, on the other hand, have never hesitated in proclaiming their necessity and importance, in India's economic life. The National Planning Committee which examined the problem came at the following conclusions :—

(1) Foreign capital has retarded national development politically and economically.

(2) In future foreign capital should not be accompanied by foreign ownership and management in case of industries of national importance. It may be accepted in the form of loans.

(3) Special privileges to foreign capitalists should go.

(4) In the case of vital industries the Govt. should acquire foreign interests by paying suitable compensation.

The New Policy.

It was in February 1947 that a non-official motion was tabled in the Assembly recommending executive, administrative and other measures to prevent or check foreign hold on Indian economy. The independence of the country

changed the whole position. In a resolution issued on April 6, 1948 known as the Industrial Policy Statement, the policy of the National Government has clarified its position, vis-a-vis the foreign capital in India. The statement was further amplified by the Indian Prime Minister. It recognises that Indian capital needs be supplemented by foreign capital but makes clear certain conditions and aspects relating to its participation. They are asunder:—

1. The Existing foreign interests would be required to confirm to the general requirement of India's industrial policy. To enable further imports foreign capital will be treated at par with Indian capital and a mutually advantageous basis would be discovered.

2. Foreign interests would enjoy existing remittance facilities and would be acquired, if necessary, only after reasonable facilities have been granted for the remittance of proceeds.

3. In the case of being acquired foreign interests will be paid fair and equitable compensation.

4. The Government will not object to foreign capital and employment of non-Indians in posts requiring technical skill and experience when no suitable Indians are available but Indians must be provided with training for such posts.

5. The Government will not injur in any way British or other non-Indian interests in India so long as they perform constructive and co-operative role in the development of the economy.

The Central Advisory Council Industries recommended in July 1949 that "Government should take early steps to encourage the inflow of U. S. or other foreign capital whether on Government to Government basis or otherwise." Pt. Nehru further gave assurance to U. S. investors that India was prepared to import foreign capital on the basis of profit and safety for the investors. The Indian Finance Minister Mr. Matthai in his 1950-51 budget speech elaborated the point further by stating that India welcomed foreign capital "in the shape of equity capital on the basis of joint participation on strict business considerations without any political strings attached to it." The Indian Fiscal Commission, 1950 expresses a similar opinion.

In June 1950, Pt. Nehru announced his policy as to the continuance of free repatriation of sterling and dollar capital invested in India as well as the foreign capital from other countries. 'Repatriation of capital invested after January 1, 1950 will be allowed to the extent of the original investment plus the proceeds of that investment provided the said investment has been made in projects approved by the Central Government."

THE CONCLUSION.

A very pertinent question is often asked by the critics of foreign capital in India's economic life. To a very great extent the question remains unanswered. It is pointed out that Japan could raise the capital necessary for the industrial development of the country without any appreciable foreign help. The U. S. S. R. carried out huge plans even in the face of hostility and restraint by all the European countries. Can not India with definitely greater resources and positively higher industrial equipment do so? U. S. A. saved in the beginning of the 20th century 14% of her income for investment. Germany, the Netherlands, Japan and even England saved even more for that purpose at different periods of time. Russia saved nearly 10% to begin with and increased it as the five-year plans proceeded. Recently, the East European countries and China did the same without undue strain upon their economies. Such savings necessitated curtailment of consumption for short periods. But as Lewis has said, "A Government may get away with planning for as much as 15% to 20% of the national income to be used for gross investment but if it tries to go further than this, it will meet considerable resistence." So long as, therefore, the so called democratic character of our political and economic structure continues we cannot emulate the examples of China, Japan or Russia. The tall question, of course, is "is such a democracy which guarantees nothing beyond poverty, starvation, enriching of the few and idleness of resources is, after all, desirable?"

The Government of India having accepted the principle of investing and encouraging foreign capital it seems difficult to convince them of the need of not giving up the distrust of foreign capital. Let them remember that such capital does not bring about long-term development and whatsoever development is thereby brought about is more than counter-balanced by the evils it must inevitably entail. Let the experiences of China be not forgotten. Further, the Govt. must answer the question whether foreign capital will enrich the people. All that can be suggested as a polliative is that the Government of India must see to it that political influences do not come with foreign capital. For that purpose, loans from the World Bank, the I. M. F. and from such co-operative schemes as the Colombo Plan, are more desirable. But the scope for such loans is extremely limited. On the other hand, loans from foreigners even when they are on the Government to Government basis do tend to bring political factors. For Example, despite the tall talk about it, even the food loan from U. S. A. is not without the invisible political strings attached to it.

Suggestions for further reading.

1. The Role of Foreign Capital in Indian Economy and its Future : K C. Bhandari.

2. Foreign Capital in South-East Asia : H. G. Gallis.

3. Our Economic Problems : Wadia and Merchant.

4. Financing of Post-war Industry : S. K. Bose.

5. Industrial Finance : National Planning Committee.

6. Government Measures Affecting Investments in India : D. K. Malhotra.

5

THE ECONOMIC CRISES

Synopsis :—

1. Introductory—economic crises are a universal feature of the modern capitalistic world, they are caused by the alternating periods of prosperity and slumps.

2. Why do they happen—under capitalism national needs and national production are not co-ordinated, profit determines production which may be more or less than the demand : Theories of trade cycles, the sun-spot theory of Jevons, the psychological theory of Pigou, the under-consumption theory of Hobson, the monetary theory of Hayek, the over and under investment theory of Keynes and the monetary over-investment theory ; the climatic causes, maladjustment between demand and supply and the price fluctuation.

3. Breaking up of Booms and Depressions—booms are characterised by high prices, labour troubles, increased employment and high interest rates ; booms break because of the inelastic nature of the supply of factors of production ; depression has low prices, low wages, low interest rates and idleness of factors of production, it breaks because possibility of profit arises, because of the action of local bodies.

4. Major Trade Cycles of the World—they were pronounced in the 2nd half of 19th Century, Crises of 1906, 1913, 1922, 1929, 1936 and the two World Wars.

5. Problems created by the crises—they create inflation and deflation and call for adjustments, dislocate industry and trade.

6. The Way Out—two types of remedies the preventive and the curative, the former consist of removing dependence on natural factors, adjusting demand and supply and a proper banking policy ; the latter consist of public works, credit control, planning and nationalisation ; all these measures do not remove the trade cycles but simply reduce their intensity.

7. The Position of India—ours is an agricultural country, nature plays an important part in the economy, dependence on foreign capitalistic countries is great, credit control is loose, agricultural countries suffer the most from crises, planning is the only solution.

8. The Conclusion—it is impossible to do away with economic crises under capitalism, Russia has no problems, socialisation the best remedy for India.

Introductory :—

The modern world is characterised by major economic upheavals repeating themselves in a cyclic manner. What happens is that at some period of time, on account of some reasons, prices begin to go up. Along with this upward tendency of prices production, trade and employment also begin to expand. Gradually the process gathers momentum and economic activity all round becomes more and more brisk. In the initial stages the rise of prices leads to almost a proportionate expansion in production with the result that scarcity of goods and services is not visible, through increased production employment to various factors of production and consequently their incomes expand. The rise in prices as it is accompanied by expanded income and expanded production causes a general economic prosperity. Levels of consumption go up. Everything seems to go well. But a moment comes when this process of increasing prosperity comes to an end. The banks discover that they have expanded their deposits beyond the 'safety point' The producer suddenly realises that his scale of production has reached proportions to the limits of his managerial capacity. The man in the street comes to the conclusion that prices have gone too high and decides to curtail his consumption. The result is that prosperity comes to an end. Due to the curtailment of demand, due to the reluctance of the banks to advance more loans and due to the hesitation on the part of the producer to expand production in the light of the above, the rise in prices comes to a halt.

This, in itself, induces the people to postpone the expenditure of their incomes in the hope of lower prices in future. The downward movement of prices starts The boom has broken. The fall of prices leads to curtailment of production which reduces employment and the income of the society. This in itself reduces the demand further. Thus, a vicious circle starts and prices, production, employment, bank deposits, infact the lacunae of all economic activities fall and fall. The proces continues even when prices come back to the orginal level from which they had started moving up. The business activity is retarded. There is slump all round. Finally, the prices touch a very low level. Here again, ultimately, a point is reached where the man in the street has realised that at the existing level of prices he can afford to satisfy more of his wants. Demand for goods increases. A slight increase in one direction spreads all round. Producers find that they can sell more and they,

therefore, decide to produce more. Thus, there is again a change in the opposite direction. Prices begin to recover. Production, employment and bank deposits greadually expand. The tendency towards a recovery gathers force. Again the phenomenon of rising prices appears. Prices go on rising and rising until, as analysed before, there is again a crash.

Thus, there are alternative periods of prosperity and slumps. In technical language, the period of prosperity is the period of boom while the period of slump is the period of depression. Now these alternating booms and depressions repeat themselves at almost fixed intervals. Economists have estimated that normally a period of 7 to 11 years elapses between two booms or two depressions.

The cyclic process of price movement and business activity is given the name of Trade Cycles by economists. The resultant booms and depressions out of the Trade Cycles are called Economic Crises. Such economic crises, it must be noted, are the experience of every capitalistic country. Furthermore, the intensity of the booms and depression looked from a historical perspective has been increasing with the advancement of capitalism. Economists are convinced that so long as free enterprise continues, the economic crises will also continue and the intensity of the crises must increase with the strengthening of the capitalistic mode of production.

WHY DO THEY HAPPEN ?

We have noticed that the economic crises go on repeating themselves. In fact, the capitalistic world is completely baffled by them. If is worth while to note that in the case of socialised economies the Trade Cycles are conspicuous by their absence. This indicates that the economic crises arise on account of certain inherent defects in the working of the capitalistic system.

Karl Marx in his masterwork *Das Kapital* analyses the fundamental features of the capitalistic mode of production. He comes to the conclusion that capitalism cannot dispense with the economic crises. Capitalism is based upon the profit-motive. It is the presence of profit which induces a capitalistic producer to continue a particular branch of production, to start a new branch of production, to expand the existing scale of production and so on. To be more concrete, what is to be produced, of what type and in what quantities is dictated by the scales of profit. Qualitatively and quantitatively production thus becomes dependent and is governed by profits. It is of course, true that in the final analysis the extent and quality of consumer's demand must dictate the quality and quantity of production and no-

producer can afford to neglect this fact. But we must also remember that demand is not an independent phenomenon developing in isolation removed from the objective, conditions of economic and social realities. The modern capitalist, in particular, has the means to influence the peoples demand to a great extent. In the sphere of qualitative change his powers are quite great but, of course, in the sphere of quantitative change in demand he is at a loss. While so much of latitude has to be given for the capitalist power to modify demand, it is clear that his power is not absolute. The most important limitation of this power is the limitation in the supply of purchasing power.

The capitalist must inevitably try to substitute machines for men. This is bound to increase his profits. He will by this action of him reduce the demand for wagelabour and consequenthy the income of the working classes. Thus as capitalism expands the purchasing power in the hands of the bulk of population, at any rate, does not and cannot expand proportionately.

Coming now back to the argument started, we had noticed that the capitalist produces for profits and that the consumers' demand is, in general, independent of his behaviour. The result is that production may be delinked from demand for consumption. A thing is produced not because people need it, nor of the quantity and quality the people desire but because it brings profits for the capitalist. The divergence between production and consumption thus appears. A thing may be produced in greater or lesser amount than is warranted by the demand. Consequently, there may be the over-production or under-production. In actual production over-production in one direction must automatically mean under-production in other directions since at any moment of time in solution to the demand levels the economic resources are a fixed quantity. The divergence between needs and production, between consumption and the means of consumption, is in fact, the basic cause of the economic crises.

The Theories of Trade Cycles.

In order to explain how and why the divergence between consumption and production takes place the economists have advanced a number of theories. These theories differ widely. Beginning with almost a superstitious belief in the existence of sun-spots the theories extend to the explanation of the complex monetary phenomena of the modern world. In addition, many economists have tried to approach the problem from the socio-psychic-cum-economic point of view.

Professor Jevons associates trade cycles with the appearance of sun-spots. Normally after regular intervals of 7 to

11 years spots appear on the sun. The appearance of these spots has usually coincided with all types of natural calamities e.g. the floods, draughts, earthquakes and such other havocs. They result in extensive crop-failures and destruction of life and property, with the result that economic crisis appears. Human beings through their efforts try to reconstruct the damaged economy but when the recovery has reached a certain stage the sun-spots reappear and damage it again. Now, all this may be a mere coincidence or a mere accident but Jevons seems to be convinced that it is so. Sir James Jeans in his *Mysterious Universe*, infact, admits that coincidence and accident have got a definite place in the evolution and development of this vast universe. He says, "If a monkey types and types pages after pages for millions of years, may be one of the typed pages has a sonnet of Shakespeare." But the theory of Jevons is unscientific and rather evades the explanation of the trade cycle, which, as will be seen later, can be explained with the help of the things of this material world of ours.

Professor Pigou gives us psychological interpretation of the trade cycles. He argues that prosperity and depression are deep-rooted in the human psychology. There are ebbs and flows in the psychic world which occur in a cyclic manner. The material conditions of life being to a very great extent, the objective manifestations of human cravings, business conditions reflect the same cyclic tendencies as the human psychology. While one has to admit that at the top of a boom or at the bottom of the depression pychological factors really assume great importance so that a slight psychological change can divert the course of events, the fundamental explanation offered by Pigou is inadequate.

Hobson discovers the cause of trade cyles in the decrease of consumption levels. His theory is now designated as the "Under-Consumption Theory". He emphasises the fact that under capitalism expansion of production is faster than the expansion of want satisfying ability. In other words, as compared with production the purchasing power in the hands of the consumers is diminished. There is consequent under-consumption and the producer is not able to sell the whole produce raised. The approach of Hobson in this direction is realistic but Hobson discovers only one aspect of the problem. His basic idea is that the total cost of production does not find its way into the pockets of final consumers, a part of it disappears into the reserve fund which a manufacturing company invariably sets apart for further investment. But the fallacy in the argument lies in the fact that if savings so made are hoarded they must ultimately reach the consumer at least in the long run.

Dr. Hayek puts the whole blame of an economic o[illegible] on the over issue of credit money. Credit may be e[illegible]

ed far in excess of the natural and genuine supply of capital coming out of current savings. The expansion of credit depends upon the banks' own sweet will. They create cheap money which tends to raise prices. A part of the additional money created is invested in the capital goods industry with the result that consumer goods do not increase strictly in proportion to the increase of money and consequently purchasing power. This causes inflation which can be remedied through *expansion of consumer goods industries* but at a certain point for the purpose of safety and self-defence, the banks refuse to lend any more and the crisis ensues.

Hayek, in fact, postulates that savings and investments left to themselves must be in equilibrium. But this equilibrium is upset by banking policy. But Hayek is wrong in so far as he assumes an equilibrium in savings and investments. He is also wrong inasmuch as his theory implies that credit expansion is always bad.

Lord Keynes attributes trade cycles to the disparity in savings and investments. If all that is saved is invested, the aggregate cost of production of all commodities and services becomes equal to the total income accruing to the various members of the community. But if savings are not all invested but are partly hoarded, then to that extent the purchasing power is immobilised and goods already produced cannot be profitably disposed of. This causes a depression. On the other hand, investments may exceed savings inasmuch as investments can be stimulated and financed by credit created by the banks. The over issue of credit will raise prices and cause a boom. The theory is more convincing than the others but the theory throws no light on the periodic aspect of trade cycles

Modern economists try to evolve a synthesis of almost all the theories related above with the exception of the sun-spot theory. The modern theory as developed notably by Heberler is called the Monetary Over-Investment Theory. This theory takes into account the effect of both the monetary causes responsible for the trade cycles. The theory is in complete agreement with Keynes regarding the disparity between savings and investment being responsible for the crises. But for the explanation of the periodic nature of the phenomenon, Pigou and Hayek must be reconciled with the Keynesian view-points. The reconcilation is possible in the light of the fact that over-investment in one direction causes so much dislocation that the psychlogy is turned the other vay.

Causes Summarised.

The subject of trade cycles is one of the most controvertial topic in Economics. It is impossible to rely upon any

single theory to explain the complex phenomenon of economic crises. Every theory has some element of truth in it yet each one is incomplete in itself. The trade cycle is the result out of a combination of causes of various types. Climatic conditions create the objective conditions, psychological factors increase the intensity whereas the monetary causes and over-investment lead to over-production and under-consumption.

Thomas has tried to summarise the various causes as below:

(i) Unforeseen causes affecting the supply of raw materials food and other agricultural commodities;

(ii) Imperfect adjustment between demand and supply which alternatively creates over-production and under-production; and

(iii) Price variations caused by financial factors which swing the psychology and encourage speculation.

BREAKING UP OF BOOMS AND DEPPRESSION :—

Characteristics of the Boom.

The chief characteristics of the boom are:

(1) High prices for all commodities, high costs and high profits,

(2) Conditions of full employment, *(a)* best possible amount of idleness of factors of production including labour and *(b)* labour troubles because the prices of commodities increase faster than costs and incomes, great trade union activity and strikes;

(3) Velocity of circulation of money increases faster than the velocity of circulation of goods; there appears acute economic distress and discontent. Workers demand more as wages and as dearness allowances. Costs increase and the prices increase further. There is no stop.

(4) Rate of interest keeps rising gradually. The price of securities rises still faster.

Why the Boom Breaks?

Is it possible to retain the boom? Keynes thought that the boom could be maintained but his theory and practice both failed in 1936. But although we cannot that way remedy the trade cycle, we can definitely decrease its intensity.

The boom breaks because the supply of capital goods, savings, raw materials and labour is more inelastic than the demand for them. There is a rigid limit beyond which the supply cannot be increased. Births, for example, in the long run, limit the supply of labour. For a certain time

when demand increases the price of these things goes up. This leads to an increase in costs and consequently to prices which again increase the demand for these things. The demand, thus goes on increasing until the supply becomes absolutely inelastic and does not respond to changes in price. Therefore, the boom must burst. In two directions the trouble is most acute—in banking and in business. As the boom goes forward, the demand, for money increases; more loans are provided, rate of interest rises, the profits of the industrialists increase faster still and banks go on lending. But a time comes when the cash reserves of the banks fall to the statutory or safety minimum. Banks refuse to lend any more. For lack of finances, production expansion stops and the boom breaks. Secondly, when prices have reached a certain high level, infectious, business psychology based upon unknown forces comes into play and the boom must burst.

Characteristics of Depression.

They are:

(1) Idleness of labour, national savings, bank funds, resources and capital goods industries.

(2) Low wages, low incomes, low prices and low profits;

(3) International trade both in respect of agricultural and manufactured articles falls very low.

(4) Rate of interest falls very low but the industrialists and businessmen are very much discouraged and borrow very little.

(5) There are no labour movements, no strikes: the employees are satisfied with whatever they are able to get.

Why does it break?

Even the depression must break because of the following reasons:

(i) Relatively, there is a greater fall in wages, interests and cost of production than in the prices. The possibility of making a profit, therefore, creeps in. The cost of production falls because there is a difference between the supply of factors of production and finished commodities. The supply of the former is, comparatively inelastic, while in the case of the latter the supply perhaps falls faster than the demand.

(ii) There is tendency with the merchants to hold stocks. They refuse to order for new stocks until the old stocks are sold off. When stocks are finished, these merchants order for new stocks for the next 3 to 6 months. The idle producers get orders and begin to produ[illegible]. Naturally, the depression breaks.

(iii) The government of local bodies are in general, backward. When the depression has lasted long and things are cheap, they begin to think of building roads, hospitals, etc. They begin to place orders on the producers and so the depression breaks.

MAJOR TRADE CYCLES OF THE WORLD :—

The trade cycles became specially pronounced in the world in the second half of the 19th Century. As the time went by and capitalism progressed the economic crises followed in quick succession at regular intervals. In the 20th Century even at the very outset the trade cycles increased in their ferocity. Specially well-marked was the presence of these crises during the inter-war period. The two World Wars have themselves been responsible for creating the necessary conditions for the development of trade cycles. In the post-war period, the effects of war-time boom still continue. But there is no denying the fact that a major depression must necessarily come within quite a recent time. Had it not been for the clouds of another war hanging over the world horizon and the active war like preparations in the capitalistic countries, the post-war economic crisis would have come long ago. There were serious indications of a business recession in U. S. A. and even in the backward countries like India we can read the writings on the walls.

The most important economic crises were in the year 1889 and 1899 in the 19th century. These crises, however, did not evoke too much of interest mainly because in the first place, they were of modest dimensions and in the second place the world economy had been effectively co-ordinated by them. In the year 1906—1907 we saw yet another depression which was much larger in its scope and magnitude. In 1913 yet another crisis started which led to the failure of a large number of banks the world over. Between 50 to 55 banks failed in India alone.

The World War I led to vast expansion of currency and credit money in all the important countries of the world. As a result, inflationary trends developed and there was a time boom. But at the end of the war the boom broke down. Some of the countries, notably, Germany, experienced havocs of hyper-inflation. There was a slump in 1922—23 but by 1925, there had again been a recovery and for some time it appeared that the world was going all well. Substantial economic progress was visible everywhere. But then in 1929 began the worlds biggest crises—the Great Depression. It started with a number of bank failures in the U. S. A. and there was a general Wall Street crash. Gradually, the depression spread to the other countries of the world. No country expect the U. S. S. R. was spared. In India the

onset of depression started in 1931 and by 1933 there was acute economic distress. Recovery started in 1934.

The Great Depression caused a lot of anxiety to the capitalistic world It completely ruined the old philosophy of *laissez-faire*. Capitalist countries had to revise their attitudes towards planning. The New Deal in the U. S. A. theBlum Experiment in France and similar plans in the other countries of the world show a direct realisation of the interest weakness of the capitalistic system of production.

Hardly had the world recovered from the after effects of the Great Depression, when in 1936 there was a business recession. In 1939 the indications were towards another crises when, thanks to Hitler, the war started and a huge almost unprecedented boom developed. Many of the countries including India suffered great hardships and privations and inflation began to run riot. To a great extent the effect of the booms are continuing. The inflationary flames have been continuously fanned by troubles in the South-East Asia, the Korean War and the desire for reconstruction and development on the part of most of the countries of the world.

PROBLEMS CREATED BY THE CRISES.

The economic crises have baffled the economists, politicians, business magnets and administrators of the capitalistic countries. In general, a period of boom which leads to rise in prices and leads greater profits, greater production and greater employment is welcomed by the capitalistic producers. But a boom is always characterised by fall in the real income of the people. Acute economic distress is felt by the general consumers. It is the period which creates great political and economic discontent. Many countries suffer the horrors of revolution, internal disorder and in general, rapid changes of Government. It is, generally, during these periods that nationalisation of industries proceeds, that spordic attempts are made of planning and greater concessions are given to the labouring classes.

The depression, as a matter of fact, deals more severe blows to the capitalist system. The capitalist makes losses, discontinues production or at any rate, curtails it tremendously and the idleness of economic resources and unemployment in general, ensue. The most prominent feature is the unprecedented failure of banks. Industry, trade and the business life in general, gets dislocated and national psychology ebbs very low.

The fact is that both the phases of economic crises tend to create far reaching problems. All types of dubious methods are adopted to tide over the difficult situation. Modern wars, when objectively analysed, can, in a sense be related to

economic crises. Economic imperialism wants to secure bases for raw-materials and markets for manufactured goods in foreign lands. This, finally creates international tension and leads to war.

The Way Out

Economists are not agreed about the measures to be taken to fight the economic crises. There is almost a unanimity of opinion now that within the frame-work of capitalism it is impossible to do away with the trade cycles. What can at the best be done is that the crisis can either be postponed or can be made less trouble some. Any actual measures to be taken, will, however, depend upon three factors; (i) the cause of the crisis, (ii) the magnitude of the crisis, (iii) the speed of the crisis. Two sets of methods can be used, the preventive which will attempt to check the onset of crises and the curative which will remedy the situation when the crisis has already set in.

The Preventive Measures.

The type of measures will differ according to the actual nature of the disease but the following, in general, can be recommended :

(*i*) In an agricultural country where the crisis are generally due to climatic variations and natural calamities, the dependence of agriculture on natural factors should, as far as possible, be removed. It is true, that wars, earthquakes, etc. cannot be removed but, floods and epidemics can be controlled and irrigation facilities can be provided for.

(*ii*) Imperfect adjustment of demand and supply can be rectified by collecting and distributing correct and upto date statistical information about economic phenomena of all types.

(*iii*) A sound banking system and a sound monetary policy are also essential as a stabilising influence on business activity.

The Curative Measures.

The following can be recommended in particular:—

(*i*) Judiciously timed public works programmes and development schemes in the form of road construction, railway extension, canal digging, power projects etc. are very useful to combat depression.

(*ii*) A sympathetic policy on the part of the banking system and timely and adequate help from Central Bank may do a lot of good.

(*iii*) A planned economy with a view to co-ordinating the national production to national needs will do away with most of the troubles.

(*iv*) Progressive nationalisation aiming at running the national banking system and industries will remove many of the disparities in the adjustment of demand and supply. The state should be prepared to step in when private enterprise fails.

It must be remembered that the above measures are only in the nature of palliatives. They do not ensure complete eradication of the crisis. The only permanent solution is the establishment of a socialist state. Such a state will anticipate the national demand. Through the planning of entire economic life, various economic activities can be so co-ordinated as to remove mal-adjustment.

The Position of India.

India is an agricultural country. More than two-thirds of her people depend upon agriculture. The culture is mostly a gamble in the rains. The possibility of natural calamities affecting the course of economic events is indeed great. On the other hand, the Indian economy is very much dependent upon the economic conditions of many foreign countries. International trade plays quite an important part in her domestic economy. She is liable to be influenced by every passing mind. Above all, we in India, are trying to revitalise our economy and as such, we are embarking upon a huge programme of industrial expansion.

While it is a fact that economic crises are the creation of of highly developed capitalistic mode of production, it is the agricultural countries who are the greatest sufferers from them. In the case of a depression, the fall in the prices of agricultural commodities is more pronounced. Similarly, during a boom because of the inelastic nature of agricultural production, price rise is more steep. In India the control over the banking structure is also of the loose type.

India, therefore, has suffered and is likely to suffer from the ravages of economic crises. It is time that we not only rationalize but revolutionalise our economic policy. We must strive to reduce the dependence of our agriculture on the whims of nature. Through judicious and well-co-ordinated planning it is possible to safe-guard the economy to a very great extent. Better course will be the socialisation of the economy for an effective and permanent solution of most of the economic evils including those arising from the economic crises.

Conclusion

Capitalism cannot do away with the economic crises. They must come at regular intervals. Ultimately it is a socialized economy which is the best guarantee against them. While the whole world was suffering from acute ... and unemployment during the early thirties, no

such dark clouds threatened the economic horizon of Russia. Planned economy seems to be the best way of not only preventing the crisis but also of fighting it. In the case of India, the peculiar conditions of the country increase the need for such an approach further.

Suggestions for further reading.

1. Prosperity and Depression : G. Von Heberler.
2. The General Theory of Employment, Interest ar Money : Keynes.
3. An Outline of Money : G. Crowther.
4. Prices and Production : Hayek.
5. Industrial Fluctuations : A. C. Pigon.
6. Economic Destiny : Hawtrey.
7. Das Kapital : Karl Marx.
8. Marx Engeles Marxism : V. I. Lenin.

6

INDIA AND THE COLOMBO PLAN

Synopsis :—

1. Introductory—South East Asia contains one-third of the world's population, it has just emerged partly out of foreign rule, it has suffered tremendously from the last war, its importance as a bastion of peace is great, it is an undeveloped area, the economy has been seriously dislocated, population is increasing, the levels of consumption and export have fallen below the pre-war averages.

2. The Formulation of the Colombo Plan—it grew out of the Commonwealth Finance Minister's Conference of 1950 in Colombo, it is based upon a realistic realisation of the needs and potentialities of the South-East Asia, it proceeds in liason with the U. N. and the Point Four programme, it aims at establishing pre-war levels of consumption and exports in the area.

3. The Colombo Plan in Brief—the Plan gives priority to agriculture, transport, development of power and social services, it tries to achieve substantial increase in the production of food, jute, cotton, rubber, etc.

4. The Position with regard to Technical know-how and Capital Requirements—the Plan assesses the already available technical facilities in the countries of the area and plans at their further expansion, it also aims more training facilities abroad and recruitment of technical personnel from outside ; regarding finances, the Plan recognises the need for foreign help.

5. The Position of India—the Plan proposes a six-year development programme, it discusses internal and external sources of finance and allots expenditure to the different branches of national economy, internal finance being inadequate, it recommends concessions to foreign investors.

6. The Conclusion—the area must be free, assistance from outside the Anglo-American Axis must also be searched, the Government of India announces Five Year Plan.

Introductory :—

The Importance of South-East Asia.

The countries of South East Asia occupy an important place in the worlds' economic and political structure of to-day. The area contains a large number of countries e. g. Pakistan India, Ceylon, Burma, Malaya, Singapore, Thailand, Indonesia, Viet Nam Republic and People's Republic of Viet Minh. In addition, there are the smaller countries of Borneo, Sarawik and Brunei. The total population of this area has been estimated at nearly 760 millions which is one-third the population of the world. At the same time the area comprises a vast tract of land more than 4000 miles from East to the West and nearly 2000 miles from the North to the South.

Until recently, all of these countries have been under European rule with the exception of Thailand over which, though the political control was not being exercised, yet the control over the economy and the foreign policy was complete. The European powers have never been interested in raising up the levels of economic development in any of these countries. They were interested more in securing raw materials and in selling their industrial products. Whatever development of the means of transport and communications has taken place that has been made mostly for this very purpose. The result has been that all of these countries have become important raw material producing countries and have not been able to develop manufacturing industries of their own. They are, thus all of them undeveloped, under-developed or backward countries. Levels of economic development are so low and the population tends to increase so fast that acute economic distress has become a universal feature.

The importance of the South East Asian countries arises from three considerations. In the first place, being backward countries with eventual possibilities for expanded supplies of raw material and with gainful scope for markets, they are likely to become the bones of contention between the various economic interests of the West. In other words, they offer very good targets for exploitation and there is a possibility that they may become the cause of a future international conflict and of another World War. Secondly, because of the acute economic distress prevailing inside the countries and because of the unwillingness of some of the foreign powers to satisfy the political aspiration of the native population, a very strong national-cum-social movement has gathered ground. The conditions are ripe for the revolution, and in a number of countries parallel communistic governments have been set up. With the formation of the Peoples' Republic of China the western world has becoming panicky. The Anglo American powers are convinced that communism

must spread out in the countries of the East if the present state of affairs is allowed to continue. Thirdly, the western countries are faced with a probelm of falling population. They realise that the Third World War must come. With the end of the European rule in many of the important countries of East, it is being realised that, judged from the dimensions of a modern war, the Third World War must inevitably cause a shortage of man-power in the Anglo-American camp. At any rate, the cheap cannon fodder will not be available from the countries of the East as it was in the past. The Korean War has demonstrated beyond doubt that people in Europe, and particularly in U. S. A. react very strongly when it is not the blackman but their own sons and daughters that are killed on the battle front. The western world realises that while it is longer possible to maintain an iron grip over the East it is probably possible to carry them with it through some sort of economic help to its starving people, more so, when it can be advertised that such a help is extended out of a genuine desire to help. Thus, it is on account of the fear of expanding communism and on account of securing the cooperation of the eastern people that the Anglo-American powers have become interested in the problems of the East and in the schemes of their uplift.

The Post-war Economic Conditions in the East.

The post-war period has brought about a large number of political and economic changes in the world. The relative importance of the different countries of the world in the world economy has undergone a great change. The old balance of power has been disturbed. British political and economic life has tended to become not only dependent but also subservient to the American economic strength. At the same time, the communist bloc has been strenghened not only by the inclusion of the East European countries in its fold but also by the support that the communist ideology has been able to obtain in the non-communist countries of the world.

Changes in the East have been still more significant. The period has witnessed the end of British imperialism in such important countries as India, Pakistan, Ceylon and Burma. Similarly, the Dutch have had to leave Indonesia. The remnants of British imperialism in Malaya are finding it difficult to retain their foot-hold while the French are having an increasingly tough job in Indo-China. The way in which the Western masters left the inhabitants of the areas to their fate before the Japanese onslaught does not leave any scope for confidence in the protective aspect of European rule. At the same time, the East has also noticed the emergence of a strong and unified China under a communist rule. Even the critics of the new regime have

to admit that within a short time China has brought about incredible improvement in the national Economy.

War had ravaged many of the western countries and hence the immediate post war problem is one of rehabilitation and reconstruction of the industries. In the East, on the other hand, the economies are essentially of a backward character. The War had dislocated the economic life and had imposed great hardship on the population. The post-war economies emerged still more famished. The present state of affairs is bad and in almost all the countries even the already low pre-war levels of consumption and progress have not been obtained India has a plan under view which aims at establishing the pre-war level of want-satisfaction within the next five years. The under-development of the Eastern countries and the prevailing economic distress are not only due to the damages brought by the war but also because of ignorance, illiteracy, idleness of economic resources and unemployment. Moreover, almost every country has suffered the horrors of internal disorders in the post-war period which, in the case of Burma, Malaya and Indo-China still continue unabated.

From the point of view of production, although improvements, of late, have been visible, the pre war levels of exports have not been reached. In respect of rice the most important agricultural produce and the staple diet of the majority of the people, only Pakistan, Malaya and Philippines have made progress. Thailand has reached the pre-war level while India, Ceylon and Burma are much behind the pre-war levels. Things are worse in respect of Indonesia, Malaya and Indo-China. Similarly, the production of sugar has fallen down the pre-war figure. While India has, of late increased the total production Indonesia has not been able to restore the pre war *status quo*. The position of rice and sugar production presents an even more disappointing picture when we consider the fact that in the area as a whole the population to-day is 10% to 15% more than in the period before the war.

In respect of the commercial crops like tobacco, jute, tea, cotton and rubber the position is not very much different. The total production of tobacco is much below the pre-war level. India and Pakistan, the two most important producers of jute have been unable to reach the pre-war average due to several reasons. Much of the area under jute was diverted to food crops to meet the food shortage. The deficits on jute account were further intensified by the losses of crop, particularly in Pakistan, The Indo-Pakistan trade deadlock has further tended to decrease the incentive to jute plantation in Pakistan and is likely to continue to do so. The output of tea in the case of India and Ceylon has considerably increased while in the case of Pakistan, Malaya

and Indonesia it has considerably fallen with the result that the total production of the area is considerably below the pre-war level. India and Pakistan are the two important cotton producing countries in the area. The reduction in cotton production in the two countries had, in fact, created world shortage of cotton in 1948-49. Since then, the conditions have improved but the pre-war levels of export of raw cotton are still in the realm of infancy. The production of rubber has shown some increase especially in India, Ceylon and Indonesia from 1946 onwards but tremendous fall has taken place in the output in respect of Malaya and Indo China because of the internal troubles.

In respect of tin, fats and oils the levels of production and of exports are much below the pre-war level. Burma and Malaya, partly as a result of the scorched-earth policy during the war and partly because of lack of internal peace and security have been unable to contribute their full quota.

The most outstanding features of the area are increasing population, food shortage, decreased levels of consumption, idleness of resources, poverty, illiteracy and general economic backwardness. Nature has been abundantly kind to the area and it contains fertile soils, a variety of climates and rich mineral deposits.

THE FORMULATION OF THE COLOMBO PLAN:—

Most of the under-developed countries of Asia had almost raised an uproar in the United Nations regarding the state of affairs in the countries of South-East Asia. It was argued that there were great dangers inherent in the continued under-development of this part of the world The Commonwealth Prime Ministers meeting in October 1948, stressed the need for solving the problems in Asia. In July 1949, the Commonwealth Finance Minister meeting eventually discussed in greater detail the problems of millions of people of this area which it has realised are under-fed, under clothed and under-sheltered. It was discovered that no social progress could be brought about in these countries without economic improvement of their ways of living. The Commonwealth Finance Minister's Conference finally decided to establish a Consultative Committee representing the Commonwealth Governments to discuss the matter further and to explore possibilities for such help as could be extended to the countries concerned.

In January 1950, the Commonwealth Finance Ministers met again in Colombo and tried to evolve an acceptable plan for the development of S. E. Asia. Besides the Commonwealth countries the representatives of the Governments of Burma, Thailand, Indonesia and Viet Nam were also invited to participate in the discussions and to appraise the Conference of their respective needs and general attitudes.

As the discussions proceeded it was realised that there was a general agreement regarding the need for a plan of development for the area. At the same time, all the participating governments had expressed their willingness to participate in any such scheme and to shoulder the obligation arising thereunder. The Conference for the purpose of drafting a co-ordinated plan appointed another Consultative Committee. This Committee met at Sydney from the 15th to 19th May, 1950 and was attended by the accredited representatives of the Governments of Australia, Canada, Ceylon, India, New Zealand, Pakistan and the United Kingdom. The Committee was presided over by Mr. P. C. Spender, Australian Minister for External Affairs. In collaboration with other interested governments, the Committee formulated a plan consistent with the agreements arrived at in Colombo. The Committee recommended that immediate measures must be taken to raise living standards and to deal with the menace of poverty, unemployment and destitution of the people of the South and South East Asia.

Objectives of the Plan.

The Colombo Plan has been based upon a realistic assessment of the needs of the countries to be affected. What is more, it has tried to study the pattern of economic and social life in the countries concerned. 'Essentially the problem of South and South East Asia is one of gearing the economy of the East to the dynamic economy of the world in general" What these countries need most is technical personnel and capital help from outside. The Plan states, "Most of these countries, rich in natural endowments, are yet poor in economic achievements and the last war left its grave injuries to their economic and social fabric. With timely and adequate supply of capital and technical resources, they are, however, capable of regaining their economic health and by utilising the immense man power in making their region a bastion of peace."

The Plan proposes a scheme for technical cooperation. The main idea is to maximise mutual help among the countries in the South and South East Asia. Technical assistance would be provided on bilateral basis. The Plan is to move in close liason with the Technical Assistance Programme of the United Nations and with the 'Point Four Programme' of the U. S. A.

The Planners have tried to approach every country in different manners according to the actual basic needs of the country in question. The basic problems of India are food, raw material shortage and inflation, the problem of Pakistan is one of low productivity. Ceylon and Malaya have specialised themselves in the production of export

commodities mainly tea and rubber and it is, therefore, necessary to supplement their economies with additional production of food. Similarly, in respect of other countries, different lines of approach in the context of the existing economic set-up have been adopted. Broadly speaking, the object is to raise up the levels of economic development through mutual cooperative help and through such help as is available from the U. N. O., the U S. A. or other countries interested in the development of area in the form of technical and capital assistance.

THE COLOMBO PLAN IN BRIEF :—

The Consultative Committee's Recommendations.

The Consultative Committee made the following recommendations to the participating countries :

(i) Each country should prepare by 1st September 1950 a realistic and comprehensive statement of its economic situation. It must lay down a development programme for six years of which all the stages should be properly set down.

(ii) The reports of the countries regarding the above would be considered at another Conference in September in London where, after the assessment of needs and resources including the help from interested outside countries, a development programme would be finalised.

(iii) To supplement the technical assistance already available to the area from the U. N. O. and other channels, a Commonwealth technical assistance scheme of the order of £ 8 million spread over three years should be inaugurated.

(iv) The Non-Commonwealth countries should be informed of the Plan and should be associated with it.

The whole objective was to prepare a realistic and constructive programme and to do it with the least of delay. As has already been mentioned, the Plan was to cover a period of six years ending with June 30, 1957. The following considerations influenced the preparation of the Plan :

(i) Only such development projects should be included in the programme as could reasonably be completed in six years' time.

(ii) The need for external and internal finance and technical know-how should be clearly shown in the Plan.

(iii) The programme should be realistic.

(iv) The guiding principle should be the establishment of a proper balance between industry and agriculture.

(v) In order to maintain stability of incomes for the producers, as far as possible, the stability of demands inside the area should be maintained.

The Development Programme Analysed.

The Plan gives the utmost importance to agriculture, transport and communication and electric power. Taking the three countries India, Pakistan and Ceylon, we observe that 38%, 20%, 22% of the total expenditure allocated to each will be spent on the development of transport services. Agriculture is allotted 33%, 32% and 37% respectively. Social services get 16%, 11% and 27%, Industry 10%, 20% and 6% and power development 3%, 18% and 8% respectively. Similarly, taking into view the peculiar structure of each country's economy the total allocated expenditure has been distributed between different items of development. The following table gives an idea about the three countries stated above and the percentage in respect of the total expenditure:

(In millions of £)

	India	Pakistan	Ceylon	Total %
1. Agriculture	456	88	38	32
2. Transport	527	57	22	34
3. Social Services	218	31	28	18
4. Industry	135	53	6	10
5. Power	43	51	8	6
Total	1,379	280	102	100

What will the Plan Achieve?

It has been estimated that the fulfilment of the Plan will mean that in the area as a whole 13 million acres of more land will be brought under cultivation and 13 million acres more will be irrigated. This will mean a 3½% increase in acreage and 17% increase in irrigation over 1950 level and this will result in the production of 6 million tons of additional food grains or a 10% increase in the same. 1·1 million kms. of extra electric power will be generated and there will be a 67% increase in power. Allowing for a 10% increase in population, the area will still continue to be deficit in rice. At the pre-war levels of consumption there will still be a deficit of 1·7 million tons in respect of the staple food.

A considerable attention has been paid to the expansion of jute and cotton production in the area. At the same time an attempt has been made to do away with the effects of the war and to restore the export levels to the pre-war period. But the planners are afraid that because of the fluctuating nature of the world demand for the products of the area the pre-war level may not be reached.

The Colombo Plan envisages a substantial increase in the public expenditure on development programmes in the countries of the area. The following table indicates the rate of increase in respect of India, Pakistan and Ceylon:

	Average annual rate (In millions of £) (1950—51)	(1951—57) the duration of the Plan
India	169	230
Pakistan	32	47
Ceylon	10	17

THE POSITIONS WITH REGARD TO TECHNICAL KNOW HOW AND CAPITAL REQUIREMENTS.

Technical Training.

The Colombo Plan has recognised the obvious fact that no scheme for development can succeed in South and South-East Asia unless trained personnel is made available to the countries in the area. The facilities in existence both with regard to general education and technical training are inadequately low. Two things are necessary in this connection. There should be adequate provision to harness the native genius and skill in this direction. At the same time foreign technicians must be made available. With regard to India, the position in this regard is slightly better because of the comparative level of industrialisation being slightly higher. But still, the demand for technical personnel will be much greater than the existing supply. The Plan discovers three ways of meeting the shortage in this respect. Firstly, they advocate an expansion of training facilities in the area itself, secondly, adequate training facilities must be ensured to the students of the area in foreign institutes and universities and thirdly, trained personnel must be recruited from abroad.

The planners have, first of all, tried to assess the present position with regard to facilities available in the area. The U. N. O. and the Government of Pakistan have established training centres in Pakistan. "In India, the Scientific Man-power Committee and the University Education Commission have assessed the additional requirements of technical personnel in the next ten years and have made recommendations for further expansion of existing technical resources to meet these needs. Other important steps taken by the Government in recent years are the creation of a Department of Scientific Industrial Research ; the opening of a series of National Laboratories for research in Physics, Chemistry, Ceramics and other fields..... ...Dehra Dun Forest Institute, the Indian Institute of Science at Bangalore, the School of Tropical Medicine, the Indian Agricultural and Research Institute,....... and a large number of Polytechnic and other institutions have been set up."

For the purpose of increasing the training facilities the Plan proposes an expansion in the following manner. In

India the number of technical training centres is expected to be increased from 2,777 in 1949 to 3,330 in 1957 and the number of trained men from 1,25,790 to 1,67,720 during the same period. In Pakistan, the institution are expected to be increased from 216 to 293 and the number of trained men from 22,000 to 25,300. In Ceylon, the centres will increase from 22 to 28 and trained men from 1,454 to 3,050.

Regarding the need for recruits from abroad, the Colombo Plan assesses the need as below :

Types of Experts	*India*	*Pakistan*	*Ceylon*
Agriculture	37	38	9
Fisheries	6	12	1
Industrial Experts	8	12	8
Engineers	452	217	47
Industrial Chemists	1	27	3
Statisticians	2	8	0
Research Chemists	18	42	0
Medical	49	25	2
Education	13	30	1
Middle typed Technicians	0	12	22
Others	52	37	82
Total	638	460	175

The Plan recommends encouragement to privately run technical facilities and also pleads for greater facilities to the area of the £ 20 million United Nation's Technical Assistance Programme. In addition, the Plan outlines a £ 8 million technical cooperation scheme for providing assistance on a bilateral basis. A Council for technical cooperation has been formed which is working in collaboration with the U. N. and U. S. Point Four Programme.

The Finances.

While the Plan recognises the importance of national savings both voluntary and forced through inflation in any plan of economic development, both of them have been ruled out as undesirable in the countries of the area. The former is impossible so long as the per capita income is as low as at present while the latter in the context of already high prices and in the context of increasing population pressure, scarcity of food and raw materials and the dearth of capital goods will be disastrous. The Report, therefore, thinks it necessary that foreign assistance in capital as well as consumer goods is necessary to carry out the development programmes.

After carefully studying the balance of payment position of all the countries included in the scheme, and after a careful survey of the financial position as disclosed by the

budgets, the Report has estimated that the total requirements of India, Pakistan and Ceylon for foreign capital will be £818 millions, £ 145 millions and £ 61 millions respectively. A part of it will, of course, be provided by the releases from Sterling Balances. But for the rest other external sources e. g. the help from the Commonwealth countries outside the area and from the United Nations and the U. S. A. will be needed. Provisions for such help have been examined and it has been estimated that the plan from this point of view is realistic.

THE POSITION OF INDIA :—

In the foregoing discussion an attempt has been made to place the Indian position inside the Plan in its broad outline. It has got to be admitted that the Plan makes a realistic approach to the planning of Indian economy. More than this the Plan is objective and practical. The total expenditure proposed is Rs. 1840 crores and the programme extends over six years from July 1951 to July 1957. It lays a greater emphasis on agriculture and transport than industry. "It aims to provide India with imports of technical personnel, capital goods, raw materials, consumer goods and food. These imports will mop up the purchasing power and check the mad inflationary trends which development of finance may bring about. Thus, it is better balanced ...."

It is desired to improve the standard of living and to strengthen the social services. The aim is modest and at the end of six years the per capita Consumption of food and cloth will be 16 ozs. and 15 yards respectively. The Six-Year Development Programme proposes the following :-

"(i) to undertake certain basic developments such as irrigation and rural electrification in order to increase agricultural production ;

(ii) to increase the supply of fertilizers, agricultural implements and building materials at a reasonable cost in order to raise the yield of land under cultivation ;

(iii) to develop and improve transport facilities ;

(iv) to promote the full use of existing industrial equipment and capacity and to extend the production of iron and steel ;

(v) to encourage industries in the villages to provide work for the under-employed and unemployed rural population."

The distribution of expenditure is as under :

	(In Crores of rupees
Agriculture	608 8
Transport and Communications	702·7
Fuel and Power	57·6
Industry and Mining	180·0
Education	114·4
Housing	18·3
Health	51·5
Other Social Services	107·1
Total	18,39·6

In connection with transport, railways are alloted Rs. 480 crores, roads Rs. 110 crores, ports and harbours Rs. 11 crores and others Rs. 102 crores. The three river valley projects included are the Damodar Valley Projects (Rs. 50 crores), Hirakund (Rs. 30 crores) and Bhakra (Rs. 75·7 crores).

The major programme included in the Plan in respect of agriculture is increase of three million tons in food grains. In addition 195 thousand tons of cotton, 375 thousand tons of jute and 1500 thousand tons of oil seeds are expected to be the extra production during the course of six years.

The Finances.

The proposed capital will be secured as under :

	(In Crores of Rs.)
International sources such as taxation economy in govt. expenditure, internal savings and borrowings.	1,000
Releases from Sterling Assets	2,70
Foreign Borrowings	5,70
Total	1,840

In case of the first item, additional taxation is expected to yield Rs. 381 crores, internal borrowings Rs. 110 crores, increase in the earnings of commercial enterprises Rs. 180 crores and reduction in the governmental expenditure Rs. 110 crores. In the case of item third, there are clearly four sources available (*i*) the World Bank (*ii*) the Export and Import Bank of America, (*iii*) privately arranged loans in the money markets of London and other countries and (*iv*) Loans from U. S. A. and the commonwealth countries.

The Plan makes a plea to the co-operating countries to facilitate the inflow of capital to the area by giving concessions to private investors and Governments from abroad. It recommends that the foreign investors should be ensured the safety of their investment and should be allowed to transfer their profits and capital in case they so desire to their respective countries. In the case of the hard currency countries

this will be a necessary condition for the availability of loans to the area.

THE CONCLUSION :

The needs of the South and South-East Asian countries are really great. Any scheme of world development and any planning for a permanent and stable peace will be impossible without a development of this important part of the globe. What is, however, needed is that foreign rule must end. It is absurd to plead for the retention of European hold over any part of the area on the ground that it is threatened by communistic aggression. In their desire to give the dog a bad name and hang him, the western countries have not hesitated even to call the genuine nationalistic upsurge of the people as communist inspired. Above all, if the people, who are by every standard, the best judges, of their country's and their own destinies, desire communism who are the western powers to poke their nose. If, unfortunately, economic development implies economic domination bringing in political subservience, the people of the area will rightly refuse to accept it. Let the Europeans remember that most of the problems of the area are their own creation.

That the Colombo Plan is realistic has got to be admitted but the pertinent question is 'can we not get help more reasonable, more abundant and less domінating from outside the Anglo-American orbit ?" It is a pity that the question remains unanswered.

The Government of India has already started work on a number of projects. The First Five Year Plan has been released. The Colombo Plan is useful for us because it has done a lot of spade work and because it has developed a principle of cooperative development. Above all, it has tried to bring the important Asian countries close together for mutual help and economic collaboration.

Suggestions for further reading:

1. The Colombo Plan, 1950.
2. Colombo Plan and India : V. Vithal Babu.
3. The Draft Five Year Plan, 1951 Commonwealth.
4. Press Reports of Finance Ministers' Conference, 1950.
5. The Economic Problems of S. E. Asia : R. K. Mukerji.

7

INDIA'S FIRST FIVE YEAR PLAN.

Synopsis :—

1. Introductory—Need for planning in India, the end of laissez faire, topsided development of the economy, the low per capita income, the poverty in the midst of plenty'.

2. History of Planning in India—the first realisation came after the Great Depression, the Bombay Plan of 1943, the People's Plan, the Gandhian Plan, the Saraiya Committee, the N. P. C., The Planning Commission—it starts working from March 1950, and its six objectives are laid down.

3. The First Five Year Plan in Outline—it was published in July 1951, it aims at social, economic and political justice, agriculture and irrigation and power are given priority, the total expenditure is estimated at Rs. 1793 crores divided into two parts of Rs. 1493 crores and Rs. 300 crores each, the plan covers a period from 1951-52 to 1955-56, Rs. 1203 crores are to be raised out of internal and existing external sources, Rs. 290 crores out of sterling balances and deficit financing and and Rs. 300 crores out of foreign assistance, if forthcoming, allocation of expenditure between the Centre and States is laid down.

4. The Plan Analysed—agriculture has the top priority, 30% of the expenditure for it, side by side irrigation projects are to develop; in industry public and private sectors are defined, small provision is made, more importance to basic, defence and heavy industries; power development is allocated Rs. 450 crores, target of 1·1 million kws. in five years; the Plan envisages an increase in population to the tune of 26 millions in five years.

5. A Critical Review—the Commission uses big phrases, the laws of economic development are neglected, the data is untrustworthy, the plan tends to increase the inflationary gap, no scheme for incentive in the private sector, neglect of population problem, the absence of a distributive machinery.

6 Conclusion—full position regarding the Plan is not yet clear, it does not inspire much confidence, stabilisation of prices is a necessary condition for of planning at the present time.

Introductory :—

The Need for Planning in India.

The world has now bidden good-bye to *laissez-faire.* In the 19th century when England was the 'workshop of the world,' it was very well for her to profess and preach non-interventionism in economic affairs. But with the gradual shrinkage of the world market, with the industrialisation of the undeveloped countries and with the rise of economic nationalism, this old liberalism in economic affairs became untenable. It had failed to solve the three fundamental problems of human society, namely, the trade cycles, the involuntary unemployment and the perpetual clash of interests. Economic planning was the only solution for all these ills. The path for the development of planning was not, however, a smooth one. Planning was introduced in the socialised economy of Russia. It was, therefore, something connected with socialism and not, therefore, good or even palatable to the capitalistic countries. For long, the capitalistic world hesitated. But the Great Depression of the thirties convinced the world that there was no alternative. The predictions of Karl Marx about the crises in capitalism had, after all, come out true. There was an official and universal recognition of the end of *laissez-faire.* State intervention and planning of economic life were accepted as the gospels of economic policy.

The need for planning in India is certainly very great and urgent. India has a topsided, low level and deficit economy. About three-fourths of her population is dependent for their living on land. But her agriculture is in a very poor way. Nearly 90% of the cultivators produce enough food for themselves alone. Only the remaining 10% produce a surplus. The holdings are scattered and fragmented, the average holding being not more than three acres which is absolutely uneconomic. Irrigation facilities are inadequate. Only about one fourth of the area under cultivation is irrigated. The yield per acre is very low. The Indian agriculturist "is born in debt, lives in debt and dies in debt." To add to the trouble, the peasant labourer is without work for periods extending from 3 to 6 months in the year. There is chronic shortage of food while land is lying unreclaimed.

The position regarding industry and transport and communication is not very much different. Despite the huge potentialities for extension and development, very little progress is being made. Heavy industries are more particularly wanting. The total output of consumer's goods is inadequate and every year huge quantities are imported from outside. The balance of trade has of late been greatly adverse and a general scarcity of goods of all types is prevailing.

The national dividend is very low. In 1931–32, Dr. Rao estimated annual *per capita* income at Rs 65 in India as against Rs 1046 in U. S. A. and Rs. 980 in the U. K. Even this small national dividend is not properly distributed. It was estimated that less than 5% of the people enjoyed about one-third of it, about 33% took another one third and the rest 62% got the remaining 33%. In the rural areas about 90% of the population was estimated with income of Rs. 18 per year. About two-thirds of the population got food on an average about $\frac{3}{4}$ of the diet given to the prisoners in jails. In 1948, the *Eastern Economist* estimated the *per capita* income at Rs 213. But then the cost of living and prices had risen 6 to 10 times and during the period, therefore, there has been a diminution in terms of real income.

While this is the existing sad state of affairs, the potentialities and possibilities for development are very great. Our resources, natural and human are great. There is, in fact, "poverty in the midst of plenty." We need planning because the old technique of *laissez-faire* is not sufficient for solving the economic ills and because we want to derive maximum possible benefit from our resources and want them to go for a longer period by avoiding waste. We want a purposive direction of our economic activity. We must proceed with the object of securing the best possible allocation of available productive resources to different activities securing thereby the fullest possible satisfaction of consumer's needs.

History of Planning in India.

The Great Depression had brought home the necessity of planning in at least some sectors of Indian economy. But the then Government of India refused to take any action, partly because there was no popular public demand for planning and partly because planning smelled of socialism which could not be tolerated. The Bombay Plan published in 1943 attracted, for the first time, the public attention to the need for planning. It was a 15 year plan divided into three stages of 5 years each. The objective of the Plan, in the words of its authors, can be described as below:

"The principal objective of our plan is to bring about a doubling of the present *per capita* income within a period of fifteen years from the time the plan comes into operation. Allowing for an increase in population of five millions per annum, which is the rate disclosed by the last decennial census, we estimate that a doubling of the *per capita* income within a period of 15 years will necessitate a trebling of present aggregate national income. To achieve this, we propose that the Plan should be so organised as to raise the net output of agriculture to a little over twice the present

figure, and that of industry, including both large and small industries, to approximately five times the present output...

The total expenditure proposed in the Plan was Rs 10,000 crores distributed as follows:

	(In Crores of Rs.)
Industry	4,480
Agriculture	1,240
Communications	940
Education	490
Health	450
Housing	2,200
Miscellaneous	200
Total	10,000

The plan aroused a lot of discussion but as it has no authority behind it, the question of its implementation, in fact, never arose.

The People's Plan prepared by Mr. M. N. Roy, on the other hand, has a different objective. "Production is planned, not with the object of increasing the purchasing power of the people, but with that of supplying their requirements. The object is not to create effective demand, ... , but to estimate human demand and to equate production to it." The entire plan covers a period of ten years and the total expenditure involved in the whole period is Rs. 15,000 crores distributed as under :

	(In Crores of Rs.)
Agriculture	2,950
Industry	5,600
Communications	1,500
Health	760
Education	1,040
Housing	3,150
Total	15,000

The initial capital expenditure for the first three years of the Plan is estimated at Rs. 1,600 crores. It is calculated that with this initial capital the plan can finance itself, i. e., the state will find enough funds for further expenditure as the initial expenditure is concentrated on items which are expected to bring in immediate returns.

The Gandhian Plan, prepared by Prof. S. N. Agarwal is much less ambitious. It opines that "our planning should be based on the indigenous culture and civilization of the nation and should be in the nature of an organic growth. It should not result in excessive regimentation of masses by diverting them and their legitimate liberty in social, economic and political life. It must plan for democracy and

not for totalitarian control." It proposes to spend a total sum of Rs. 3,500 crores in a period of ten years in the following manner :

	(In Crores of Rs.)
Agriculture	1,215
Rural Industry	350
Large and Key Industries	1,000
Public Utilities	1,115
Research	20
Total	3,700

minus 200 which is a recurring expenditure.

As no authority or government sanction was behind any of the above plans they were completely digested by the academic world. And when the war was over, we were, practically without any definite plan. But the post-war period ushered in the growth of a large number of plans mostly Utopian in nature. The Saraiya Committee proposed a ten year cooperative plan. Meanwhile the National Planning Committee appointed by the *All India Congress Committee* in 1938 began to issue its reports on the different branches of country's economic life. The N. P. C. defined the aims of planning in India, "a quick and progressive rise in the standard of living of the people, attainment of full employment, adequate and expanding volume of production, equitable distribution of existing income, prevention of the growth of disparities, establishment of a decentralised economy with national and regional self-sufficiency and a proper balance between rural and urban economy."[17] Under the guidance of Sir A. Dalal, the Government of India in August 1944 published a Report in the form of a Yellow Book. Later on, a complete plan was published in two parts, one containing a short-term plan and the other a long term one. Thus, during the war and post-war period a number of plans were published. But these were all paper plans. To tell the truth, many of them were never meant to be implemented. Some of them were concerned with the piece-meal development of the country while some others were purely fantastic.

THE PLANNING COMMISSION IN INDIA :

The most concrete step in the direction of planning was taken in India with the establishment of the Advisory Planning Board which submitted its report in February 1947. The Board emphasized the need for national self-sufficiency in food. It recommended the planning of multi-purpose River Development Scheme for the generation of electric power and for irrigation. It further recommended the nationalisation of defence industries, railways, motor, air and river transport, iron and steel, coal and mineral oils. It

advocated financial coordination between the Centre and the Provinces and also the co-ordination of the central and provincial schemes for planning The financial considerations and the problems created by the partition of the country, however, made the implementation of the recommendations difficult but in many important directions action was taken immediately as the post-partition economic and political situation showed signs of stabilisation.

Meanwhile, the Government of India realised that mere paper plans meant nothing. As a result of the war India's resources in respect of finance, capital equipment, trained personnel and raw materials had fallen short of the need. Haphazard and piece-meal planning was not likely to solve the problem. Consequently in December 1949, a Planning Commission was appointed under the presidentship of Pt. Nehru. Two basic principles were laid down in this connection. Firstly, it was realised that only a complete over-all plan on an all-India basis could achieve the desired objectives of planning and secondly that the co operation of the people was essential for any plan to succeed. The personnel of the Commission was announced on the 15th March, 1950 and it started its work on the 28th March following. The terms of reference of the commission were, (i) assessment of the capital and human resources and their potentialities, (ii) formulation of a plan for the effective and balanced utilisation of such resources, (iii) defining of the stages of planning and of the allocation of resources accordingly, (iv) determination of the nature of the machinery for each stage of the plan, (v) appraisal of the progress in each stage during the process of implementation and recommending necessary adjustments there to and (vi) tendering advice to the Central and State Governments on matters referred to the Commission.

THE FIRST FIVE YEAR PLAN IN OUTLINE :—

The Planning Commission having completed the first stage of its work presented in July 1951 an outline of a Five Year Plan. The Plan has been prepared in consultation with the Central and State Governments, the representatives of the industries, of labour and of the various other organisations and economic interests inside the country. The recommendations are for the present tentative. The Commission hopes to finalise the Plan after the Parliament has expressed its views on it. Meanwhile, the draft of the Plan has been circulated to elicit public opinion. Suggestions and criticisms have been invited from the various State Governments, public institutions and private individuals.

Objective of the Plan.

The fundamental aim of the plan has been defined in

the resolution on the scope of the Commission. It lays down that the State shall strive to promote, "a social order in which justice, social, economic and political, shall inform all the instiutions of the national life. "The Commission is to direct its policy towards securing :

(i) that the citizens, men and women, equally have the right to an adequate means of livelihood,

(ii) that the ownership and control of the material resources of the community are so distributed as the best to subserve the common good , and

(iii) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

The Priorities in the Plan.

Priorities in planning mean the order in which different items or branches of development will be taken up. The *Gasplan* of the Soviet Union gave top priority to capital goods industries and heavy industries. The second plan concentrated mainly on the electrification of the country. The Draft Five Year Plan does not lay down any clear and well-defined order of that type but it does tell us which particular lines of production will receive the first attention. Five items, all important have been listed by the Commission in that connection. Of course, ,the projects calculated to raise agricultural production are given the top priority so as to maintain the agricultural character of the economy in tact. The resources in India are meagre. They will be allocated to the achievement of the following objectives :

(i) to the completing of programmes already in hand, *e. g.*, refugee and displaced persons' relief and rehabilitation, the development plans in the process of execution, the plans relating to the development of fisheries, forests, mill supply, ports, etc.'

(ii) to the developing of industries which cater to agriculture, irrigation and power leading to the increase of food and raw materials over a relatively short period ;

(iii) to the implementation of schemes essential for the development of material and technical resources ensuring thereby greater scope of employment and expansion of consumer goods industries.

(iv) to expanding of the capacity of such basic or key industries as produce pig-iron, steel, heavy chemicals, etc

(vi) to the removal of the drawbacks of the existing industrial structure which are :

(a) lack of adequate administrative and social service and (b) differences in the relative levels of economic backward ness in different States.

The Financial Provisions in Brief.

The budget of the financial resources has been drawn to support development expenditure on the scale that is considered as minimum. The Plan makes provision for both the public and the private sectors It is in respect of the public sector that the estimates have been included in the Plan. The total expenditure envisaged is Rs. 1,793 crores, to be spend over the entire period of five years, 1951—52 to 1955—56. The Plan is, in fact, divided into two parts. The first part involves an expenditure of Rs 1,493 crores. This part simply aims at establishing the pre-war levels of national consumption. It is an acknowledged fact that the national consumption had tremendously declined during the war period and continued to be so even in the period after the war. The Plan thus simply attempts first of all the pre-war *status-quo* The second part envisaging an expenditure of Rs. 300 crores is to be taken up only when foreign assistance is available. In actual practice, the expenditure of Rs. 290 crores is uncovered even in respect of the first part and is to be financed through foreign borrowings for which efforts are to be intensified.

For both parts of the Plan taken together, rate of outlay will be about one-third higher than that of 1950—51. If, however, foreign assistance in respect of Rs. 293 crores already mentioned is not available, the rate of development expenditure will be 10% higher than that estimated for 1950—51 which itself was twice the rate of 1948-49. Thus, the target set is very modest, very unambitious and one is tempted to say very unimpressive. The scheme envisaged takes into account not only the expenditure by the Union Government but also that by the various States The allocation of expenditure as upon the various items is as follows:

	(In Crores of Rs)	(Percentage to the total outlay)
Agriculture and Rural Development	191·70	12·8
Irrigation and Power	450·26	30·2
Transport and Communication	388·02	26·1
Industries	100·09	6·7
Social Services	234·08	17·0
Rehabilitation	79·00	5·3
Miscellaneous	28·54	1·9
Total	1492·77	100·0

Of this total 734·00 crores *i. e.*, one-half will be spent by the Central Government and Rs. 559·53, Rs. 171·00 and Rs 28·15 crores respectively by Part A, B and C States.

The Sources of Finance.

The first part of the Plan estimates that out of the estimated Rs. 1,493 crores only 1,203 crores can be met from internal resources and with such foreign assistance "as is now in sight." This leaves a deficit of Rs. 290 crores. A part of it is expected to be drawn upon the sterling balances. The rest, of course, probably will be managed through the deficit financing which must, obviously, increase the inflationary gap. The whole of Rs. 1,203 crores is to be raised from such non-inflationary sources as taxation, internal borrowing and foreign assistance including the loans from the World Bank. The following are the sources of finance :-

	(In Crores of Rs.)
Surplus on Revenue Account	211
Resources normally allocated for development expenditure from the Revenue Account ...	393
Resources available from Capital Account for development :	
(i) Public loans	114
(ii) Small Savings and unfunded Debts ...	250
(iii) Others	123
Revenue contributions from the Railways ...	30
Total	1,021

Out of this total the centre is estimated to provide Rs. 641 crores and the states together Rs. 480 crores. There is, however, the provision that Rs. 211 crores will be allotted to the states by the Centre by way of assistance to implement their respective planning standards. Thus, the centre will spend Rs. 430 crores and all the States together Rs. 691 crores.

These are, in brief, the main provisions of the Plan in the various sectors. The Plan makes no tall pretensions and objectively put, does not promise much.

THE PLAN ANALYSED.

Agriculture in the Plan.

The Plan has a pronounced agricultural bias. Out of the total expenditure of Rs. 1493 crores, Rs. 191·70 crores is earmarked for agriculture and rural development. If we take into account the expenditure of Rs. 450·26 crores provided for irrigation and power it comes to Rs. 642 crores or 33% of the total expenditure. Allowing for the multi-purpose nature of the irrigation and power projects, it will, probably, not be an overestimate, if we put the expenditure on agricultural development at nearly 28% to 30% of the total expenditure.

The Plan is not, however, revolutionary in its nature. What is intended is, in general, stabilisation of food consump-

tion at the 1950-51 level. Of course, provision for producing extra amounts of jute, cotton, oilseeds and sugar have been made. The first part of the Plan makes provision for additional irrigation to about 8 million acres while minor irrigation works consisting of restoration of tanks, construction and repairs of tanks and wells, etc. will benefit another 7 million acres. The programme is expected to bring in the following increase in agricultural production.

(In million tons)

Food	7·2
Jute	2·06
Cotton	1·20
Oil seeds	·38
Sugar	·69

In the matter of planning for food, the Commission has allowed for an increase in population of 26 millions. This in itself necessitates extra amount of food to the tune of 6·9 millions tons at the existing level of food consumption. The remaining ·3 million tons together with the normal imports amounting to 3 million tons is expected to raise level of consumption from 13·67 ozs. per adult per day to 14·50 ozs.—an increase of nearly 6% over the present. The improvement in respect of the production of raw materials is much better. Increase in food-grain production is expected from the following sources: 2·3 million tons from major irrigation projects, 1·9 million tons from minor irrigation projects, 1·5 million tons from land improvement and reclamation, 0·6 million tons from fertilizer and manure schemes, 0·4 million tons from seed distribution and 0·5 million tons from other schemes. The Commission does not indicate the basis of these estimates or the procedure that ensures their materialisation. But taking into view the fact that work has already been going on these schemes, one can reasonably expect the scale of existing activity as the basis.

The Place for Industry.

Re-organisation of agriculture has been a task of primary importance. This is understandable in view of the fact, that we have been paying a heavy price for having neglected it. The result is that capital expenditure for industrial development has to be curtailed. The Commission has, therefore, concentrated on the already developed or developing units.

The Commission has laid down its aims regarding industrial planning. They are . (*i*) Production of industrial goods to meet the demands of agriculture, irrigation and power development ; (*ii*) Fuller utilisation of the existing capacity of the consumer goods industries ; (*iii*) Expanding the capacities of the industries producing such basic commo-

dities as pig-iron, steel and heavy chemicals; (*iv*) Completion of such industrial units as have already been taken up *e. g.*, the Sindri Fertilizer Factory, the Chitranjan Locomotive Works, the Dry Core Cable Factory, etc.; and (*v*) rationalisation of the existing industries.

In general, the Commission's main task has been to create conditions so as to utilise the existing capacity of various industries and satisfy itself with the minimum of expansion. Industrial development has been left mostly to the private sector. By the end of the five year period the increase in the output of some of the important products would be as below :

Steel	300,000	tons	Sugar	4,00,000	tons
Sulphuric acid	78,000	,,	Soap	1,68,000	,,
Soda ash	34,000	,,	Salt	4,50,000	,,
Caustic Soda	18,000	,,	Paper	56,000	,,
Cement	20,00,000	,,	Cloth (mill)	900	million yds.
Diesel Engines	41 000	,,	Footwears	10	,, pairs.
Pumps	47,000	,,			

The Commission points out that the targets drawn are not complete and it is proposed to issue a supplementary plan. This plan is expected to take into consideration such industries as the pig-iron manufactures, rubber manufacturing, engineering and plantation.

While adequate scope has been left for private enterprise, the Commission does not think that private enterprise, left alone, will be able to achieve the targets set above. The system suffers from many defects, e. g., obsolete machinery and plants, uneconomic units, lack of standardisation of products. malpractices of the managing agents, shortage of raw materials and capital labour relations. The Commission hopes to remove these defects through the Industries (Development and Control) Bill now before the Parliament.

For the purpose of laying down the order of priority, industries have been divided into three classes :- (*i*) defence industries, (*ii*) producer goods or capital goods industries and (*iii*) consumer goods industries producing articles for direct consumption. Of these the first are within the perview of the public sector alone. Regarding the other two, an order of priority is laid down which is consistent with the observations already made in relation to industrial objectives.

Power Development.

An analysis of the projects mentioned in the appendices of the Report indicates that power development will be a corollary to power-cum-irrigation expansion. The proposed expenditure of Rs. 450 crores on irrigation and power will add 1·1 million kws. in the next five years to the installed

generating capacity of the country. It is estimated that at the end of five years some of the schemes will remain incomplete and will necessitate an additional expenditure of Rs. 137 crores which will increase the generating capacity over to 1·93 million killowatts. This is to be a big increase over the installed capacity of 1948 which was 1·4 million kws. at the cost of Rs. 115 crores in capital. The most important projects included in the Report on which work has already been started, are the Damodar Valley Project, the Hirakund Dam Project, the Nagal and Bhakra Projects, the Thermal Station at Bokaro and the Hydro-electric development for Tilya, Konar and Maithon. The Kosi River Project has also now been included. The allocation of expenditure between the centre and the States for the proposed period of five years is approximately Rs. 175 90 crores for the Centre and Rs 191·61 crores, Rs. 79·91 crores and Rs. 89·0 crores respectively for Part A, B and C. States.

The Commission envisages that the increased electric supply may be utilised in the following ways:

(i) for augumenting existing capacity of company owned electric supply;

(ii) bulk supplies to state-owned industries and railways;

(iii) power supply to irrigation; and

(iv) rural electrification.

Population and the Plan:

The Commission's approach to population is rather realistic. The population is expected to increase by 26 millions in the five years' time. This means an average increase of 1.46% per year. The rate of increase in the past decade was only 1.3% per annum. But the Commission has rightly realised that the last decade was an abnormal one. Besides, there has been a marked increase now in the health services and epidemics and food famines are now better controlled. The levels of literacy remaining as before and standard of living showing no increase, the birth rate must be assumed to be higher while the death rate is liable to fall

The Commission has been alive to the necessity of checking this birth-rate increase and has stressed the need for family planning. Following the recommendations of a sub-committee on Population and Family Planning, the Commission recommends that:

(i) The State should provide facilities for sterlisation and should give advice on contraceptives and other birth control aids on medical grounds;

(ii) Such help and advice should not be withheld from those who need it on social and economic grounds; and

(*iii*) Research and information centres should be organised by the State by means of financial assistance, etc.

The Commission has also stressed the need for spreading of knowledge and information to rural areas. It recommends facilities to private organisations interested in the problem and emphasizes the need for improving the health of the youth specially school boys and college students. But the Plan on the question of population control is suggestive and theoretical and does not put any concrete proposals.

A Critical Review of the Plan.

General.

The Planning Commission like the authors of previous plans defines the objectives of the proposed Five Year Plan in very high-sounding words. In actual practice, it is a very modest plan and aims more at stabilisation of the economy at the pre-war level and at keeping the development projects already started running. Mr. A. D. Gorwala, who has been associated with the preparation of the plan and who is, to a great extent, responsible for defining the scope of the public and private sectors, has to make some very strong remarks in this connection. He says, "it (the Commission) will content itself with producing a series of schemes mostly for expenditure in the public sector and will proceed to dignify these by the title of the First Five Year Plan. This method of proceeding does the work itself a great deal of harm. When a man builds a cottage and calls it a palace, he must not be surprised if people are disappointed at the actual spectacle presented. The proper name of the document produced by the Planning Commission is clearly 'Schemes mostly for expenditure in the public sector together with general observations on some important matters... ."

The fundamental defect of all plans including the one under review has been that our planners have shown a lack of understanding of the laws of economic development. Economic system is like an organism and follows a consistent line in its development. The objective fixed must, therefore, be reasonable and must be based upon a proper estimate of the working of the laws of the motion of human society. The question of priorities, the degrees of development in different branches of the national life and above all, the relative importance of the so-called non-economic aspects of life must be not only co-ordinated but must be harmonised with the basic laws of the development of society. To be more concrete, the relative proportion between the capital goods production and consumer goods production for all stages of the plan must be very carefully and intelligently established. Of course, the existing social and economic structure must always be taken into account.

The success of the Russian plans was fundamentally due to this. "Planning without tears is an impossibility" and it will do well to remember it. One turns in vain to the Indian Planning Commission for this type of approach.

Besides, in India there are a number of difficulties, in presenting a comprehensive plan on an all-India basis. The economy has not yet been properly integrated so as to ensure co-ordination in all its branches. Then, the statistical data are not available regarding even the basic aspects of the economy. One is not sure of the Commissions' way of calculating and fixing up of the targets accordingly. Knowing the degree of err or in the official statistics, the correctness of most of the estimates is open to question. The estimates may erron any of the two sides. But in planning errcr in either direction is equally fatal.

Particular Aspects Considered.

Turning to the details of the Plan itself one cannot be very enthusiastic and very optimistic about it. The Indian Chamber of Commerce and Industry has, of course, conceded that the Five Year Plan drafted by the Commission is 'by and large more realistic than the spate of schemes which emanated from the Central and State Governments in the last three years." But it is certain that such comments are more of the nature of a comouflage than of real assessment.

The Plan, rightly, has an agricultural bias, the Planning Commission being affected by the painful experience of food shortage and by the fact that for a considerably long time yet, India cannot afford to export anything but the raw materials. But what has been neglected is the fact that agricultural development must bring in more of purchasing power in the hands of rural population which, in the absence of expansion of the consumer goods industries, must inevitably lead to inflationary tendencies. Such a tendency must, in the final analysis, jeopardise the the Plan itself. The need of the hour, probably, is quickly maturing projects designed to yield returns in the immediate future co-ordinated with a simultaneous expansion of consumer goods industries. Unfortunately, the methcd of finance itself tends to increase the inflationary pressure. In respect of Rs. 290 crores uncovered in the first part of the Plan, deficit financing must inevitably mean more money chasing the same or slightly increased volume of goods;

One of the most unsatisfactory part of the Plan is the distinction between the public and the private sectors. No where is it pointed out as to how the private sector is to be

made to work. The provisions of the proposed legislation may be expected to lead to rationalisation. They may be expected to improve, to some extent, the existing labour and capital relations but they can not make the private sector conform to the wishes of the commission.

Side by side, one is bound to be disappointed by the way in which the population problem has been dealt or rather side-tracked by the Commission. Apart from collecting information and making certain suggestions of a very general nature, the commission does not feel its duties further.

Lastly, the Plan neglects the distributive machinery completely. While it is true that the Plan, in general, aims at ensuring the pre-war *status quo*, it does not follow that the existing pattern of distribution is to be regarded as the ideal. The Commission has probably been deceived by the fact that since agriculture and irrigation, together with the public operation of industries have been given priorities, it must obviously mean that a major portion of the extra income created must go to the poorer or rural sections of the population. Only a slight reflection could have dispelled the belief.

CONCLUSION.

Will the Plan Succeed ?

The Plan, as has been pointed out before, is still in the stage of discussion and development. May be that as the public and professional opinions crystallise, the Commission may revise the Plan in the light of the criticisms and suggestions advanced. But as it is, the Plan does not inspire much of confidence. The time between the publication of the Draft and the time of writing these lines has been so short that reactions of all sectors of public opinion are not yet available. In general, the Plan has disappointed the enthusiasts of planning. They search in vain to the realisation of economic ideals which they have been continuously associating with planning.

The lack of authenticity regarding the data on which the estimates are based, the non-realisation of the fundamental laws of economic development and the lack of a proper order of priorities all throw doubt about the actual success of the plan. If, as a result of the working out of the plan, the unfortunate phenomenon of runaway prices becomes more vigorous, the plan must not only fail because of the economic distress of the people but also because of the flasification of the Commission's estimates which will then be out of tune with the prevailing price level. Is not one led to belief that the commission has at best produced a mouse out of a mountain of labour ?

The Rational Approach.

To be successful, any planning in India must, in the context of the prevailing conditions, ensure stability of prices as a minimum condition. That means, to be on a sound footing, we must first of all break the spiral of inflationary prices. Secondly, the plan must establish a rational proportion between agriculture on the one hand and consumer goods and capital goods industries on the other. Any plan that does not take into account the basic features of India's economic life must, obviously, be unrealistic.

Suggestions for further reading.

1. The Draft Five-Year Plan.
2. Planning for Plenty : S. Chowdhry.
3. A Digest of all Plans : Prof. Dautwala.
4. The Grave—Yard of all Plans : Lalwani.
5. A Critique of the Five Year Plan : Lalwani.
6. The Economic Weekly dated July 21, 1951.
7. The Memorandum of the Federation of Indian Chamber of Commerce and Industry to the Planning Commission.
8. The Eastern Ecoromist.
9. The Commerce.
10. The Press Reports and Comments.

8

THE WELFARE ECONOMICS

Synopsis :—

1. Introductory—there are two ways of approaching the science of Economics, the positive and the normative ; Robbins thinks that Economics is a positive science while Pigou wants to make it purely normative, Economics is, in fact, both.

2. Development of Welfare Economics—Mercantilists preached state interference, later on, *laissez-faire* ruled supreme, than came a reaction as the defects of capitalism became pronounced, Utilitarianism of Bentham and the ideas of the socialist reformers led to the development of Welfare economics, economic crises accelerated it.

3. Welfare Economics Defined—it studies that part of human well-being which has a monetary measurement.

4. The Conception of Welfare State—great revolution in thought in the 19th century, the democratic control over the state developed it, such a state developed particularly in the 20th century because of the difficult economic conditions, the two wars, liberal ideas and the socialistic ideology.

5. Socialism and Welfare-Economics—the establishment of the Soviet Union greatly influenced the economic thinking, socialism acts in three ways, (*i*) it serves as a model, (*ii*) it creates psychological background and (*iii*) it has an educative value.

6. Welfare Analysis in Modern Economic Thought—three tendencies are visible in the modern thought, realism, exactness and welfare analysis, the influence of the last is great in public finance, planning and legislation

7. The Conclusion—welfare approach is an integral of economics, there is need for a reorientation of the orthodox economic theory.

Introductory :—

Two Approaches to the Study of Economics.

One of the most controversial topics in the study of the science of Economics is the question of the nature of

economics. Broadly speaking a branch of knowledge can be approached in two ways. There is a distinction between the positive science and the normative science. Earlier economists did not try to make any distinction between the normative and positive aspects of economic study. In modern economics, however, such a distinction is made. What is more, the distinction is pushed so much ahead that two important schools of thought can clearly be distinguished in the modern economic theory. One of the schools believes that Economics is simply a positive science and proceeds to treat it as such. The second school, on the other hand, is emphatic that economics must be treated as a normative science.

It will be desirable to understand precisely what the positive and normative sciences connote. This will be of great help in understanding the actual nature of the controversy referred to above. A positive science is one which studies things falling within its scope as they are. It refrains from pronouncing any judgment on the moral or ethical character of the phenomena. Thus, it consists of a factual study. A normative science, on the other hand, has a definite end in view. It studies things as they should be, for the purpose of achieving the given objective. It, thus, pronounces judgment on the moral aspects and, what is more, prescribes courses of action.

There is no denying the fact that the science of Economics can be studied as a positive science and it can also be studied as a normative science. Every science has its 'light-bearing' and 'fruit-bearing' aspects. Prof. Robbins, the greatest supporter of the positive approach believes that Economics is purely a positive science At one place in his *Essay on the Nature and Significance of Economic Science*, he states, "There is no penumbra of approbation round the theory of equilibrium : equilibrium is just equilibrium." Prof. Robbins in this terse and difficult manner has simply stated the fact that the question of do this or do not do this, does not concern an economist. He should know that Economics studies the working of the system of equilibrium just as it exists.

Prof. Pigou has something completely different to say. He believes that unless economists want to land themselves into fruitless abstraction, the normative approach can not be given up In fact to be of use to humanity the science of Economics should prescribe the course of action for the society, the individual and the state. He considers Economics as a normative science whose aim is the maximisation of human welfare. It must be admitted that the attitude of Robbins is one of a true scientist who makes an impartial, unbiased and the truly scientific study of a department of knowledge. The attitude of Pigou is the attitude of a realist

and a practical man who considers the study of economics not an end in itself but the means to an end. The former believes that the laws of economics being related to human behaviour are flexible in nature. What is sauce for the goose is not necessarily the same for the gender. If the Economist simply analyses the facts in all their aspects and in their entirety, the particular individual, society or state may be expected to use whatever course of action is most suitable to it. It is none of the business of the economist to tell him "Do so". The latter as a practical economist believes that while theoretically the above approach is correct practical considerations introduce difficulties. Economists are often asked—more so in the modern world-to pronounce judgement on certain policies or to recommend courses of action regarding certain things. If the economist thinks that even for this particular purpose he must analyse the whole position and stop, he will not only ruin himself but also the body that asked for his opinion, Given an aim and given a particular economic set-up, the economist can very well lay down the way for achieving the purpose.

The controversy summarised above is almost endless. But it will do well to remember that neither Robbins has found it possible to stick to the truly positivistic approach nor has Pigou succeeded in remaining an all up normativist. When Robbins is discussing economy of war we find him advocating the ways of gearing the national economy to the persecution of war. Similarly, Pigou when he discusses theories of inflation makes a beautiful analysis befitting a true positivist. One can only say that the controversy is more academic than real. It is the manifestation in Economics of the controversy raging in literature in respect of 'art for arts' sake' and 'art for life's sake.' The whole discussion ultimately resolves itself to this. Economics has been considered in relation to human welfare. This particular approach, although not new is finding great favour of late. The welfare economists are multiplying. One cannot adopt the other course unless he is prepared to swallow the epithet of an unrealistic theoretician.

DEVELOPMENT OF WELFARE ECONOMICS :—

Mercantalists, the earliest of practical economists believed that national happiness was synonymous with national wealth. Accordingly, they discussed ways and means of increasing the wealth of the nation. They advocated the expansion of foreign trade in respect of exports so as to import more of precious metals and thereby increase the national prosperity. To them an abundance of gold and silver denoted economic well-being and prosperity. That the Mercantilists were wrong is evident. It is not the sum total of gold and silver

but that of goods and services that, in reality, constitutes levels of social well-being.

Later on, there was a swing in the economic thinking in just the opposite direction. Nature, the benign mother of man was supposed to be herself interested in human happiness. Human welfare both material and otherwise was to be maximised when all things were left entirely to themselves under the guiding care of nature *Laissez faire* became the accepted trend of thought. "Hands off" cried the economist and the governments of the day shaped their policies accordingly. While some scope for state activities was allowed, state interference was generally considered as obviously evil. In the hands of Ricardo, Economics became formal and deductive. The study was pursued for its own sake even at the risk of landing into fruitless abstraction. It was this manner of thought that later on pervaded the whole of economic thinking. The mathematical economists carried the tendency further and even at the present time we can discover a number of economists contributing to this way of *thinking*

Side by side another tendency was also visible. Malthus, for example, although he does not prescribe any course of action for improving level of economic well-being, does, indeed, point out the fact that all was not well for the human race. Unless population was checked through preventive checks, human society must head towards a great catastrophe. At the same time, the political and philosophical writings of Bentham had a great influence on the thought of the time and the science of Economics could not escape the influences of it. Bentham was a Utilitarian. Every system of human thought and every human institution according to him was to be judged in the light of the benefits it secured for the human race. Logically, therefore, systems of thoughts, modes of production, the distributive machinery, the state, in fact everything must be judged in relation to its effect on the human happiness. On the economic thought after Bentham his influence is quite pronounced.

Simultaneously, the harmful aspects of the capitalistic mode of production were becoming increasingly clear. Human misery was continuously on the increase. A clear reaction against this is visible in the economic, political and social thought of the later 18th century. In general, this reaction found its expression in the philosophy of escapism. Human ingenuity was exercised to the limit and imagination was made full use of to construct a new kingdom inside the world of books which could be free from the human misery of the type then in existence. Sir Thomas More in England and Louis Blanc and Charles Fourier in France tried to picture such ideal kingdoms. All of them paint a gloomy

picture of the conditions of man in their own countries and contrast the same with those prevailing in the kingdoms of imagination. They were the earliest of social reformers often called Utopian Socialists. Robert Owen who also belonged to the above group of reformers was more practical in his approach. His proposals for solving the misery of the working people through the establishment of cooperative societies and through state legislation were better conceived.

As a result of the influence of utilitarianism and also as a result of the preachings of social reformers, the economic theorists found it necessary to revise the older theories of Economics in the light of the factors stated above. Mills does the job and does it rather well although his tinkering with socialism is at best a flirtation. The inclusion of the concept of welfare, later on, become an integral part of every definition of Economics—the same being common to the definition of Economics by all but those belonging to Robbin's way of thinking.

The economic crises which are a natural product of the capitalistic system of production and the misery of the people in the midst of plenty further necessitated a redefining of the goal of economic enquiry. The efforts of Hobson, of Keynes, Hayek and best of all of Dalton and Pigou deserve special mention in this connection. By now, however, the impact of socialistic thought has also become clear. No country can to-day afford to neglect problems of welfare. To Pigou must go the credit for a scientific and detailed study of welfare. His *Economics of Welfare* is not only a pioneer work but also a useful work in this connection. Of all the modern writers, Pigou is the most practical and the most thorough economist.

WELFARE ECONOMICS DEFINED :—

To begin with, Welfare Economics can be defined as that part of economics which makes a study of economic welfare. But such a definition is open to two serious defects. In the first place, the definition presupposes two types of Economics, one that studies economic welfare and the other that does not. Such a division is not only arbitrary, it is positively wrong. The study of human welfare is not a matter of study for any particular type of Economics. It is the accepted criterion of economic enquiry. In the second place, the definition uses the word economic welfare which is ambiguous. It is difficult to divide human welfare into economic and non-economic. Even if it can be done, the so-called economic welfare cannot be considered in isolation independent of the so-called non-economic welfare. Robbins has fully demonstrated that any distinction of this type is misleading. The time at the disposal of man being limited, the non-economic must affect the economic and *vica- versa*. The term economic welfare

designates the sum total of material requisites of human well-being. Now it is not only the material requisites that influence human happiness but also the non-material ones. Each in its turn also depends upon the other.

Pigou has, however, solved the difficulty for us. He argues that measuring stick in Economics is money. If the science of Economics is to be exact and is to be useful in real practical life, we must include in Economics only such things as 'can be brought directly or indirectly into relationship with the measuring rod of money." Pigou is conscious of the short-comings of this approach. But from a practical point of view there is no alternative. Thus, the question no longer remains whether it is something material or non material but that whether it is capable of being measured in terms of money. Economics studies, therefore, that part of human welfare which it is possible to measure in terms of money. It does not matter whether we include in it material requisites or non-material requisites of wellbeing. Welfare economics thus studies such human well-being as has a monetary measurement. It studies human behaviour in all its aspects so long as the effect of it on the sum total of human happiness can be measured with the measuring rod of money.

THE CONCEPTION OF THE WELFARE STATE :—

We have noticed how in the realm of economic thought the idea of welfare came to acquire a definite place. The defects arising out of free enterprise necessitated a large amount of state interference in the economic and social life of the society. The wide-spread havoc caused by the economic crises and the progressive decline in the economic condition of the working people called for extensive state legislation to reduce the sufferings of the people. No government found it possible to ignore the people completely.

A great revolution took place in the formation of states and governments specially in the 19th century. The breakdown of feudalism in the face of expanding capitalism broke the old structure of the state. Capitalism itself required legislation to secure its position. The growing power of the working and toiling masses needed control through both reformative and repressive legislation. Gradually, hereditary kingship and officialdom broke down. Popular control came to be recognised as the necessary feature of a civilised government. Abraham Lincoln's conception of democracy as "the government of the people, by the people and for the people" is a development of great significance. The rise of democracy implied as a logical conclusion control over the national purse. The science of public finance developed tremendously.

The democratic process thus started led to the conception of a welfare state. A state being the representative of the people, deriving power from the people and being responsible to them must look to the benefit and the welfare of the people. The best way to do so was to run the finances of the state for the benefit of the society or the people. This implied not only suitable interference in the working of the private enterprise but went further to mean the control of economic life by the state with a view to maximising the economic welfare of the society as a whole.

The development of the welfare state has been specially well-marked in the 20th century. The First World War demonstrated how by a judicious control and management of economic life, the state could mitigate the hardships of the people to a great extent. The inter-war period in this respect, was specially important. Economic difficulties mounted so fast that the governments were obliged to take action. The rising tide of socialism which had achieved success in Russia in 1917 convinced the various governments that state control over economic life was essential. The only way to remove the distress of the general mass of people inevitable under capitalism is to bring about a redistribution of national income through public expenditure and to make some provisions for the betterment of human life. At the same time, it became necessary to curb the biting power of capitalism through the nationalisation of public utility services and through the control of monopolies.

Democratisation of the state also led to the development of education and enlightenment in the various countries. In fact capitalism for its own expansion needs more education for the masses and higher standards of living to keep up the demand for its production. But this intellectual and material development led to the development of a liberal attitude. As a result social services began to make progress. We particularly notice the development of the concepts of social security and economic planning during the period between the two World Wars. Specially marked was also the tendency regarding labour legislation, labour welfare schemes and nationalisation of industries. Protection to domestic industries became an accepted creed.

Thus, we notice the development of the notion of welfare state—a state that aims at maximising the levels of welfare inside the country. The development of such a state made economists modify some of the old economic ideologies. Economics to be useful in the changed context of things, must inevitably take up a study of welfare from the economic point of view. The literature on welfare economics during the 20th century multiplied very fast. The modern world has become so much accustomed to it that the maximisation of social wel-

fare is now an implied objective of a state and the economic enquiry.

SOCIALISM AND WELFARE ECONOMICS.

The influence of socialism on the development of welfare economics, is, indeed, profound. Socialism is a system of economic and social life in which the profit motive does not exist and the economic system is run for the benefit of society. *The means of production are socialised* i. e. owned by the society. Private property and free enterprise are not allowed to govern the courses of production. An equitable distribution of the national income is effected. The levels of economic and social welfare go up. In the Soviet Union the social services are so elaborate that free medical aid of the latest type is available on a mass scale Every citizen is guaranteed a job. Every one is guaranteed food, clothing, shelter and leisure. Education is compulsory and free. No citizen needs to bother for his old age or for the care of his children after his death. Thus, there is an elaborate and efficient machinery to ensure high degree of welfare and happiness. All these facilities, on their own part, eliminate the motive for man's exploitation of man. A socialist state tries to set up a model of welfare state and its success depends upon the degree of well-being it can make available to its citizens.

It was observed earlier that the impact of socialist ideas on the development of the conception of welfare state has been great. This is more particularly true of the more recent times. Communism accepts as a thesis the fact that highly industrialised capitalistic countries are more liable to revolutions for the overthrow of capitalism. But experience in the case of England belies the contention. England has been successfully able to postpone revolution to a certain extent by raising the standard of living of the people through the exploitation of her colonies. But to a still greater extent, her success has been due to the extensive expansion of welfare activities of the Government. British Social Security service are almost as elaborate as those of Russia. The range of the state activities in the sphere of industries, banking, insurance, foreign trade, transport, food, distribution, etc. is very great. Through public, expenditure of great magnitude and through the imposition of heavy death duties and inheritance taxes many of the disparities in the distribution of income are removed.

The success of planning in the U. S. S. R. and still more recently in China both of which have been highly backward countries to begin with has set the whole world thinking. U. S. A., U. K., France. India and many other capitalistic countries are now thinking of planning their economies afresh. The first three have already planned some important

branches of their economic life. There are three ways in which socialism has tended to develop the economics of welfare.

(1) Socialism is itself based upon the conception of ensuring progress and welfare of the highest order. By removing the economic difficulties of the people and by developing a wide range of welfare activity, the socialist state tends to disseminate happiness to the widest of masses. The governments in other countries, specially when they have popular control, find themselves in a tight corner and have to take action in the direction themselves. Thus, through the setting up of models, socialism creates a strong psychological background for welfare activities of the state.

(2) The miseries created by capitalism are so great and the promises offered by socialism are so attractive that unless some concessions are made to the general people, the chances for revolution or at any rate internal disorders increase greatly. The governments are, thus, forced to follow a policy of economic welfare in self-defence.

(3) Socialism has a great educative influence. Its appeal is not merely sentimental. It is based upon logic and upon reason. The liberal-mindedness of the mass of people increases. When popular control over the state exists this liberalism is bound to reflect itself in the basic outlook of the ruling parties.

As a matter of fact, when we consider the influence of socialistic ideology upon the development of economic doctrines, we notice a remarkable assimilation of the former in the latter. The process of assimilation began systematically with J. S Mill. It continues to-day with even greater force. It will, probably, not be an exaggeration to say that welfare economics developed as a direct result of this assimilation and it still seeks inspiration from socialism.

WELFARE ANALYSIS IN THE MODERN ECONOMIC THOUGHT :

Modern Economic thought has made great strides in many important directions But there are three significant factors that characterise it. In the first place, it has become realistic. Economists no longer long to soar in the etherial kingdoms of pure reason. They have, so to say, descended down to the earth to take stock of the actual realities of life. A study of dynamic equilibrium and of imperfect competition is being made for this purpose. Secondly, the moderners have tried to bring in exactitude in economic conclusions. This has been done through greater use of the mathematical devices and through the introduction of the measuring rod of money as the standard of measurement. The whole reasoning is concrete and moves, hand in hand, with a plethra of facts. Thirdly, the working of the economic forces, is analysed,

studied and constructed with a view to securing the maximum of human welfare. It is a recognised fact, that economic considerations far outweigh any other consideration in the individual or social happiness or well-being. In the final analysis it is the degree of want-satisfaction that determines the sum total of human happiness. Of course, the wants can be of various types and complexions. This third characteristic is significant. It makes a new orientation in economic thinking.

In three important directions, the tendency towards welfare analysis is particularly noteworthy, (i) in public finance, (ii) in economic planning and (iii) in the legislation social and economic. From a practical point of view all these three directions merit consideration. The pattern of economic life in the modern world is a creation of these three and, of course, it goes without saying that material conditions of living and the environmental settings around us govern our mental and moral outlook.

One of the cardinal principles of the science of public finance is that the soundness of a system of public finance depends upon the aggregate of net social benefit which it confers upon the people. An ideal system is one that maximises this aggregate. Taxation and other means of acquiring public revenue diminish the people's incomes. So to say they impose sacrifices on the community. They reduce the saving capacity of the people and retard the growth of capital. They also, through the decrease of individual's income, lower down his standard of life and efficiency. Similarly, they might put a discount on productivity. Above all, they tend to bring about a redistribution of the national income. Public expenditure, on the other hand, supplements people's income by providing cheap or free social services. It tends to increase national productivity through such provisions as irrigation facilities, transport and the public utility services. Now, it is a basic fact that if the difference between the total benefits thus accruing to the society and the total sacrifice made by the society is something positive, then alone the system of public finance is just and sound. A state should rather conduct its public finance in such a wise as to maximise the positive difference so obtained. The whole analysis is highly rational and perfectly justified but it will do well to remember that it is, in fact, welfare analysis that we have made here. Economists to day adopt this criterion in their approach to the problems of public finance.

Coming now to planning, the very idea behind it is the idea of a healthy and balanced growth of the national cuonomy. Planning will be not only unsound but also endesirable it it is not based upon the basic consideration of

maximising aggregate net social welfare. Every planning imposes grave restriction upon the individual's consumption and course of action which the net achievements of planning should more than compensate.

Similarly, no legislation in the social and economic sphere can be justified if it mitigates against social welfare in its entirety. Modern world is familiar with a vast body of state legislation in the sphere of industry, banking, trade and commerce. Such legislation is the very core of every civilised form of government. Now, not only the justification for such legislation but the very basis of it lies in the welfare analysis of economic thought and practice.

THE CONCLUSION.—

Welfare approach is an integral part of the science of Economics. It makes the science realistic, practical and useful. It also tends to remove the differences in the basic economic thought in the capitalistic countries and their opposites. Above all, it establishes a sound criterion for the economists. It saves the science of Economics from fruitless abstraction. The scope for pure and simple mental gymanism is considerably reduced.

The Need for a Reorientation of Orthodox Economy.

While a rapid process of change is under way, the orthodox economists have been reluctant in modifying their views regarding the desirability of a normative welfare approach. Mrs. Joan Robinson is convinced that economic truths are basically the same whether they apply to a capitalistic economy or to a socialistic one. The only difference lies in the way of approach. She discovers great resemblance in the economic thought of Karl Marx and the modern economists. Had it not been for the welfare approach, the orthodox economic thought would have long ago departed from reality and from usefulness. There is a great need to recast the economic theory as it to-day obtains, if it is to serve any useful purpose for the betterment of human life.

Suggestions for the further reading.

1. Economics of Welfare : A. C. Pigou.
2. Economic Analysis and policy : Meade.
3. Principles of Economic Planning : G. D. H. Cole.
4. Essay on Marxian Economics : Joan Robinson.
5. Economic Destiny : Hawtrey.
6. Principles of Economics : Alfred Marshall.

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THE PROBLEM OF ACCELERATING PRODUCTION IN INDIA

Synopsis :—

1. Introductory—India is to-day facing a great problem of scarcities production and exports have fallen below the pre-war level.

2. The Need for Increasing Production—low productivity, increasing population, backwardness, inflation, provision for emergencies, the international tension, all call for increased production.

3. Causes for Low Productivity in India—permanent causes such as contentment, spiritualism, fatalism, indifference, illiteracy and suspicion of the government, recent causes such as ravages of war, lack of import of machinery, transport bottleneck, partition, labour troubles and ambiguous govt. policy.

4. How can We Increase Production—there are theoretically three important considerations, supply of raw materials, supply of technical equipment and industrial policy.

5. Government's Production Drive—on the agricultural front efforts stated after 1943, the Grow More Food Campaign, food grains policy committee, the Five Year Food Plan, the cotton and jute production, measures for industrial production, the Industrial Conference 1947, concessions in 1948, Standing Advisory Committee, the Cottage Industries Board, the Fiscal Commission, 1950.

6. The Conclusion—the government measures did not succeed well, the threat of nationalisation, inefficient economic service, wanted a realistic approach and a better economic policy.

Introductory :—

The Nature of the Problem.

India is to-day facing a grave problem of scarcities. Every month the index number of prices moves up. While our population is tending to increase very fast, production is not keeping pace with it. In fact, there has been a progress-

ive decline in the levels of consumption during the war. The year 1948-49 was the worst in that respect. Our levels of production in many important branches of the national economy have fallen down. Unfortunately there has been a greater fall in respect of agriculture upon which nearly 80% of our population depends. Our problem to-day is the problem of greater production on all fronts. If we want to break the spiral of runaway prices, if we want to remove poverty, epidemics and famines and if we want to ensure a steady and healthy growth of the nation, increased production must be our watch-word The growing tempo of public discontent and the consequent dangers inherent in it can only be removed if we can assure adequate provision for food, clothing and shelter as the minimum to the broad masses of our country. The problem of accelerating production is in fact the problem of harnessing our vast manpower and our unutilised economic resources in to productive channels to ensure progressive levels of consumption

The Post-war Decline in Productivity.

A number of factors have operated during the war and the post-war period which have considerably decreased India's agricultural and industrial production. Estimated production of food grains in the Indian Union which had averaged 43 million tons from 1942 to 1946 dropped down to 40 million tons in 1947. In 1948 it was just 41 million tons. From that time the production has gradually tended to improve but the improvement is almost ridiculous when we remember the fact that the population is tending to increase at the rate of 5 millions per annum. The position with regard to non-food agricultural crops is not very much different, During the war there has been a considerable shrinkage of the area under cane cultivation. The same is true in respect of cotton. Production of sugar was only 10.7 lakh tons in 1947-48 as against 12.5 lakh tons in 1939-40. In 1948-49 it was 10 lakh tons and in 1950 a little less than this. The estimated production in 1951 is 10 lakh tons as against the estimated demand of 18 lakh tons. In respect of cotton as against the normal consumption of 45 lakh bales per year production in 1948 was only 28 lakh bales in 1950 it fell to nearly 25 lakh bales and in 1951 it is estimated at 32 lakh bales.

The position in respect of industrial production is not very much different. The output of major industries such as jute manufactures, cotton textiles, cement, paper, matches and chemicals indicated a fall in 1947—48 as compared with the previous year. We have made some improvements since then but in general, the pre-war levels of production have not been reached. The Colombo Plan has estimated

hat the South East Asia, as a whole, including India has not reached the pre-war levels of exports.

The First Five Year Plan presented recently by the Indian Planning Commission has indicated that it will take five more years for the Indian economy to reach even the per-war levels of production and exports. The Commission estimates that even this modest target will be achieved at the cost of Rs. 1493 crores. Foreign help will be necessary to finance the expenditure. Thus, there is an urgent need to accelerate production, at any rate to rehabilitate and reconstruct it.

THE NEED FOR INCREASING PRODUCTION :—

The above analysis makes it necessary for India to expand her production. Expansion of production is not simply a luxury to provide progressive levels of comfort to the people. It is a downright necessity in India. The general backwardness of the country is so much and the idleness and wastage of manpower and resources is so great that unless concrete measures are taken the miseries of the people will have no end. Already there is a mounting discontent caused by economic distress. If the present state of affairs is allowed to continue, a revolution with all its disastrous consequences can not be very far off. Economic distress breeds all types of destructive forces. The lessons from China should serve as an eye-opener. The Government of India can afford to follow the path of the Nationalist Government of China only at their own peril. Above all, economic backwardness in the modern world is a great tragedy. An economically backward country invites exploitation, agression and foreign domination. It must, therefore, be avoided at all costs. The following factors call for increased production in India.

(1) As has already been pointed out the already low levels of consumption and production in India have fallen down further during the war and the post war period. A general reconstruction of the economic life is, therefore, necessary.

(2) The population in India is tending to increase fastly. Unless we produce more, the scarcity of agricultural and industrial goods will further increase. Per capita consumption will come down and economic distress and discontent will mount up.

(3) In comparison with the civilized countries of the world, the standard of comforts in India is very low. Our food is defective both quantitatively and qualitatively. The provision for such necessaries of life as cloth, housing and such other things is highly inadequate.

(4) Nature has endowed India with a huge supply of resources. The manpower in India is abundant. She has not yet been able to utilise her resources in the best possible manner. There is a great idleness and wastage on this account. Now these resources can raise the people of the country up. Unless we decide upon a programme of production expansion we must remain poor in the midst of plenty.

(5) Inflation in India has reached a danger point. The Government of India has tried to devise a number of measures to combat it. The efforts have not, however, been successful. It must be remembered that the only effective and permanent solution for inflation is greater production.

(6) India must also make provision for emergencies. All types of natural calamities tend to befall the country. Uncertainty in respect of production is thereby increased. After all things do not proceed as expected. This disparity between expected production and actual output causes serious complications. The only sure way of minimising the hardship arising out of it is an expansion of production so that stocks may be available for the lean seasons.

(7) The international situation is highly explosive. A Third World War may break out at any moment. India has learned bitter lessons during the Two World Wars. It is fatal to depend upon foreign countries for the supply of at least essential commodities. Domestic production must obviously be expanded if the horrors of war are to be minimised.

(8) Lastly, the international situation being threatening and the hostility of the Pakistan Government continuing, it is necessary that we produce more. A possibility of war cannot be altogether ruled out in the not too distant future. We must plan for peace and for defence.

CAUSES FOR LOW PRODUCTIVITY IN INDIA :—

Permanent Causes.

There are certain causes operating for a considerably long time which, in the long, run have gradually tended to lower down India's productive capacity. Many of these causes are deep-rooted in the soil and in the general psychology of the people. For any long-range scheme of production expansion, their importance cannot be minimised Most of the economists, however, in their desire to take a short period view of the whole sitution are apt to forget their cumulative effect upon production plans. These can be summarised as below :—

(1) India has a tropical climate. She possesses a variety of soils and climate. Nature is, in general, generous. In the past when the population pressure was not so great, not much efforts were needed for want-satisfaction. The result has

been that the population has tended to be inert and lazy. India has been the birth place of great religions of the world. The general philosophical outlook of the people is religious and spiritual rather than material. Life in this world is not after all so important. The Hindu religion glorifies austerity and *Sanyas* as against materialism. This factor accounts for the paltry development of economic philosophy in the country. The attitude of the general mass of people is still predominantly ultra-materialistic. This is, of course, true that this belief is gradually crumbling down in the face of hard economic realities but we cannot still discount its importance for the vast rural population who in fact, are the real India. The sooner this belief is shattered the better it will be for the national economy.

(2) The state in the past has taken little interest in the economic life of the nation. The people have generally tended to regard the economic troubles not so much the result of forces which they can change and control but of fate. The general attitude is one of indifferent resignation.

(3) The general educational background of the population is very poor. Poverty combined with lack of education has destroyed the urge to improve the standard of living. The Grow More Food Campaign has not been able to make much progress because the general mass of people for whom it is meant have failed to understand its significance and its advantages even for themselves,

(4) The political background which is a legacy of the British rule and which to a large extent has been developed by the Congress leaders, is that the people look with suspicion on every move affecting them made by the government. This is specially true of the rural population which was and still is too much oppressed by the petty officials.

Reasons for the fall of Production in Recent Times :—

During the war time there was a general mobilisation of all resources for war effort. The existing industries were converted to cater for war needs. Many new industries were started mainly for the same purpose. The civil needs were not very much looked to. At the same time imports of not only food, raw materials and other consumer goods were stopped but even the import of essential chemicals, machine parts, machines and engines became difficult. There were two important factors which, despite the huge expansion of currency and consequently the tremendous rise in prices, did not let the production expand. In the first place, the existing industrial capacity was used mostly for the production of war materials and in the second place on account of cessation of imports, replacement of machinery became impossible. Many industries were handicapped by the lack

of essential raw materials, for which we had hitherto been depending upon foreign imports. In the post-war period a number of factors impeded production. We are gradually trying to remove them, but many of them still continue to operate. They were :

(*i*) The post-war economy was a war ravaged economy. The industrial plants had, in many cases, worked either to their full capacity or even beyond it. There had been considerable wear and tear which, in the absence of replacements, led to the closing down of a number of factories and reduced the productive capacity in the case of many others.

(*ii*) The war time difficulties regarding import of machines, machine parts and essential raw materials, continued even during the post-war period. All the industrialised countries of Europe had undergone considerable destruction during the war. They were, therefore, not in a position to export.

(*iii*) A serious transport bottleneck developed in the post-war period. Most of our railway engines, wagons and lines had been over-used during the war. In many cases they became unserviceable completely or partly. The same is true of the motor transport. Since India did not manufacture any of them, replacements became difficult. The transport bottleneck dislocated the working of the productive machinery. To a certain extent, the over-all shortage of transport still continues in the country but to quite an appreciable extent we have now solved our transport difficulties.

(*iv*) The partition of the country in August 1947 created serious problems for the country's economy. Partition was not based upon economic consideration It was based upon communal considerations. The result was that not only industries were separated from raw material producing areas but huge problems of refugee relief and rehabilitation were created. The already strained transport system had to be used not for movement of goods but for the movement of refugees. The time, money and energies that would have normally been used towards increasing production were used for the relief of displaced persons. At the same time migration of Muslims who were mostly artisans, skilled labourers and mechanics, created a shortage of such labour in the industries. Similarly, many of the industries, crops and productive agencies were either destroyed during the disturbances or remained idle as the people owning and working them were either killed or left the country.

(*v*) The post-war period was marked by a lot of labour troubles. As a result of inflation prices had gone very high. The workers were feeling the pinch of them. At the same

time, the war time restrictions on labour organisation activities had been removed. The period witnessed a large number of strikes in the sugar industry, the cotton textile industry, postal services and the railways. The number of working days lost due to labour trouble was no less than 16·6 million man-days in 1947 and 8 millions in 1948. Subsequently, the Government has been successful in reducing the labour trouble.

(vi) Lastly, the policy of the National Government has often been unwise, vague and oscillating. It was only in the middle of the year 1948 that the need to check inflation was realised. Even then no clear—cut industrial policy was formulated. The industrialists were frightened by the repeated cry of nationalisation although as the events have shown the Government had no intention to nationalise industries. At the same time, the excessive imports of foodgrains cut down our import programmes for industrial goods.

How Can We Increase Production—A Theoretical Study:—

The problem of increasing production is a very complicated affair. Theoretically wide possibilities for the expansion of production exist in the country. India has an abundant supply of land, a fairly good supply of raw materials, a little experience in management and organisation and above all a great desire to increase production. The question is how we can cannalise our immense manpower and the available resources to produce more. It must be admitted that the question ultimately resolves itself into three important considerations, viz. the supply of raw materials, the supply of technical equipment and the industrial policy. If we can successfully solve these three problems there is no reason why our production drive should fail.

Let us, first of all, take up the question of raw materials India is primarily an agricultural country. She is not only a producer but also an exporter of many raw materials. The partition of the country has, however, considerably weakened India's capacity to produce raw materials. We have experienced increasingly greater difficulties in respect of Jute and Cotton because of the rather unreasonable attitude on the part of Pakistan. Similarly, we are short of supplies in wool, raw hides & skins and chemicals. We have, therefore, to improve our position in that respect. Unfortunately the food problem is pushing every other problem into the background. Food imports account for at least 60% of the deficit on our balance of trade account. So far the solution of this problem has baffled all. There are possibilities of producing the necessary quantities of Jute, Cotton and such other raw materials in India. But this at least is certain that we cannot do so at the cost of neglecting food production. The

character of our agricultural economy is so backward that without sufficient Governmental interference and initiative not much improvement can be effected.

Coming now to technical equipment, the problem has three aspects. In the first place, there is the problem of an adequate supply of capital. Secondly there is the question of the supply of technical know-how and lastly, there is the question of industrial organisation. It is an admitted fact in respect of all the three, India is deficient. There is a crying need for more capital and technicians. Now supply of capital and technical skill are not, properly speaking short-term problems. They can essentially be tackled only in the long run. What can we do immediately is that the Government can explore and utilise the available borrowing facilities within and without. Such capital supply will, of course, be limited because of the grinding poverty of the masses and because of a general demand for foreign loans by nearly all the countries of the world. In the matter of technical training there are only two courses open, firstly to expand such training in the country and secondly to recruit technicians from abroad. Modern modes of production require much greater skill than before. If we do not want to lag behind in technological advancement, both of these measures must necessarily be adopted. Industrial management and organisation itself depends upon two factors. It depends upon the managerial skill which is, in general, a product of training and experience. It also depends upon the labour capital relationship which can be stabilized by some sort of association of the workers with the profits or management of the industry and by an efficient machinery for preventing and settling industrial disputes.

As for industrial policy, the success of such a policy depends upon its ability to create and maintain the incentive to production, to harmonise the labour capital relationship and to co-ordinate the working of different economic forces and different branches of national production. A correct industrial policy must ensure producers, the gains from their industries and it must initiate production where private enterprise is either reluctant or inefficient. This can be the only desirable course in India in the context of the existing conditions. The problem of labour must be tackled sympathetically and it must be made to realise its role and importance in the future programmes of production. At the same time, the Government must ensure that the needs of the industries in respect of imports will be given due consideration consistent with the national needs. It must also look to the fact that no industry is allowed to develop to the detriment of others and the basic and secondary industries are properly co-ordinated to move together.

Governments' Production Drive

On the Agricultural Front.

In the light of the above discussion, let us now proceed to study what the Government of India has done to accelerate production. By far, the most important branch of our national production is the agricultural industry. As we have noticed above, the problem of increasing agricultural production is two-fold. In the first place, the increase in food production is an immediate necessity and in the second place, we must produce raw-materials not only to keep the domestic industries going but also to earn badly needed foreign exchange.

Right from 1943, the Government launched a Grow More Food Campaign. The Campaign aimed at the following ;

(*i*) At increasing the area under food crops by extensive and intensive cultivation. For this purpose the government granted a number of concessions.

(*ii*) At increasing the supply of water for irrigation through various means.

(*iii*) At extending the use of manures and fertilizers.

(*iv*) At increasing the supply of improved seeds.

(*v*) At propagating the necessity of increasing food production.

(*vi*) At making available to the cultivators tools, implements, cattle etc.

The Campaign was conducted by the State Governments and the centre made grants usually on a 50—50 basis Between 1943 and 1947 the Central Government spent Rs. 9 crores and Rs. 7 crores respectively on subsidies and loans in this connection. The Campaign during the above period was not a success mainly because of the failure of monsoons, the lacunae in its working and because of the fact that it coverd only 8 million acres out of 1600 million acres under food crops i. e. only 5% of the area.

The Food Grains Policy Committee 1947—48 recommended a large number of measures to make the Campaign a success. The Committee proposed the starting of multi-purpose river projects, the avoidance of waste and the coordination of food production effort. As a result of the recommendations of the Committee, the Government formulated a Five Year Food Plan for the period from 1947-48 to 1951-52. At the end of the period the food output is to be increased by 3 million tons and every state is assigned a specified quota The scheme is to cost Rs. 283 crores and it aims at reclaiming 60 lakh acres of land. Under the Plan huge schemes of well, tank and minor irrigation works have been carried out. Vast

tracts of land have been reclaimed and much substantial work has been done. The food crisis of 1950, however, upset the whole scheme. The natural calamities were so great that it was not possible to increase production as planned. The First Five Year Plan recently released gives top consideraiton to the matter. In the case of Jute and Cotton mostly as a result of the unfriendly policy of Pakistan we have had to make progress. In 1949 the output of jute was 30 lakh bales as against 20 lakh bales in 1948. In 1950 it was 40 lakh bales and in 1951 it is estimated at 52 lakh bales which will make us self-sufficient in Jute. Production of Cotton which fell down from 28 lakh bales in 1948 to 25 lakh bales in 1950 is estimated at 32 lakh bales in 1951.

Measures for Increasing Industrial Production.

In December 1947, the Government of India called a Conference on Industrial Development in India. To this the representative of almost all the interests were invited. The conference passed a number of resolutions relating to industrial expansion, increasing production, cottage industries capital labour relations and the industrial policy. In October 1948, partly in pursuance of the recommendations of the Conference and partly as a part of the anti-inflationary drive the Government announced the following concessions to the industries:—

(i) A 6% exemption in income tax upto five years to newly started industries ;

(ii) Depreciation allowance at double the rate on new buildings, plants and machinery and on factories working triple shifts ;

(iii) Abolition of import duties on certain raw-materials and halving of the duty on plant and machinery ;

(iv) Postponement of nationalisation for ten years.

Simultaneously, as a result of the recommendations of the reconstituted Tariff Board of 1947, a number of important industries started during the war were given protection. Infact Dr. Mookerjee the then Minister for Industries told the Central Advisory Committee on Industries early in 1949 that industrial production had gone 15% above the pre-war level in 1948. Production in the case of steel, coal rubber, leather and glass, had, however, gone down. The Standing Advisory Committee made a number of recommendations for achieving efficiency, industrial peace and increased production. During 1949 all major industries except cotton textile and jute registered an increase. In 1950 and 1951, the tendency has continued and cotton textile and Jute have also made up. The First Five Year Plan envisages an expansion in the industries to assure pre-war level of consumption to a considerably increased population.

The cottage and Small scale industries also have not been neglected. In 1948, the Government of India had set up a Cottage Industries Board which was reconstituted in July 1950. The Board is now concentrating on the following lines :—(*i*) a quick survey of the cottage and small scale industries, (*ii*) training of workers in the use of machinery and technique of production, (*iii*) encouragement to cooperative development, (*iv*) coordination of the various State Government activities relating to cottage industries and (*v*) providing for the marketing of the products of cottage industries.

In addition, in implementation of the policy of Industrial Truce laid down in 1948, the Central and the State governments have set up elaborate machinery to settle industrial disputes.

The Conclusion

How far has the Production Drive Succeeded.

The sincerity of the National Government cannot be open to question. But despite every thing, the production has not proceeded so well as it was expected or as it ought to have done. The fact is that we are still very far away from self-sufficiency in the matter of food, jute and cotton. The production of our basic industries like coal steel and chemicals is far from adequate. The Planning Commission after years of labour has after all produced a Plan which aims at restoring the pre-war levels of domestic consumption at the end of 1957. This too, the Commission tells us will be possible only when in addition to foreign aid under the Colombo Plan more foreign aid is available. One really wonders if the Commission has after all played a practical joke on the general public. The prices are mounting up almost daily. There are indications towards a depression. The prices of cotton textile goods, for example, have gone so high that despite an over all scarcity of cloth the market is depressed. Unemployment which had been considerably reduced during the war is again becoming a problem.

Why has the Drive Failed ?

The hard fact is that our Government has forgotten the common saying "anounce of practice is better than a pound of theory." There is always a tall talk. Ambitious programmes are chalked out but very little is really done. The following account for the failure of the government policy :—

(*i*) The government has failed to tackle properly the problem of incentives. While they have given some concessions to the industries in the hope that this will increase the margin of profits, they have forgotten that the high prices

during the war and after have given a sufficient incentive to production of that type. One basic fact is often lost sight of. It has been the trader rather than the producer who has benefitted the most from the high prices. Inflated prices must, therefore, expand trade and speculation rather than industries The crux of the problem is that what the producer needs are not so much concessions as the material requisites of production e. e. technicians, capital goods and above all peace and security.

(ii) The Government must define its attitude to nationalisation in unambiguous terms. Nationalisation, it must be remembered is not likely to cause as much harm as the threat of nationalisation. The attitude of the average industrialist in this connection can best be summarised in the words of Mr. G. D. Birla. He said as early as in 1947, "If you plan nationalisation, we are prepared to give you our whole hearted cooperation, but for God's sake do not go on giving us threats and warnings ....If you go on threatening us that we are going to be hanged after 5 or 10 years, then I can tell you that capital will not be forthcoming for any new investment and thus your policy of expansion will be hindered "

(iii) There is a great need for the Government to set their own house in order. The economic and industrial administration is loose and the state managed industrial units have not shown the efficiency expected of them.

Let us hope that in future the Government will adopt a more realistic approach and will try to take the economic intellect in confidence and cooperation. All through the National Government has seemed to assume that the capital structure is fixed and does not admit of flexibility. But as Mr. George Mac Ghee has so rightly pointed cut it will be a great folly to work on that assumption. What is required most is the creation of a sound economic service and practical implementation of cold economic policies.

Suggestions for further reading :

1. Proceedings of the Conference on Industrial Development of India, 1947.
2. Report of the Indian Fiscal Commission, 1950.
3. Government Measures Affecting Investments in India : D. K. Malhotra.
4. India, issued by the Third Session of the United Nations Economic Commission for Asia and the Far East, 1948
5. The Draft Five Year Plan.
6. Reports of the Tariff Boards, 1947.
7. Report of the Industrial Commission.

10

CIVIL AVIATION IN INDIA

Synopsis :—

1. Introductory—civil aviation is a recent development, flying in the Indian and Greek mythology, the balloon flying and the development of modern aeroplane.

2. Slow Development of Civil Aviation in India—Europe made much progress, the Government of India was indifferent, there was no immediate danger of war, the geographical position of India necessitates development.

3. Development in India before World War II—Flying begins in 1911, India ratifies the international air connection in 1919, an Indian Air-Board is established in 1926, the Board submits a memorandum which is approved by the Government, the Government, accepts the policy of entrusting internal air services to Indians alone, a number of external and internal air services are established.

4. The World War II—the air transport is geared to war, the Air Force makes great progress, 17 new services are opened by 1943, Flying Clubs spring up and training facilities are extended, the establishment of the Hindustan Aircraft Factory, the formation of a post war plan, the policy committee makes important recommendations, the Air Transport Licensing Board is created, a Rs. 15·4 crores programme of aerodrome construction is announced and a Research and Development Laboratory is established.

5. The Post War Period—the aviation helps refugees and earth-quake sufferers, the development programme is continued, great progress is made, a new plan announced for the construction of external lines, trunk lines and feeder lines, aerodrome construction and aeronautical communication services are extended.

6. The Conclusion—there is great progress, India is deficient in aircraft manufacture and research, there is great need for further development.

Introductory :—

The development of civil aviation is comparatively a new phenomenon. It makes a new and important land-mark in the history of transport. From times immemorial, human beings have longed to fly in the air like birds. There is a Greek mythology in which an attempt is made at flying out of a prison with the help of wings made of wax. The Indian mythology puts the development of flying to so remote a period as the age of the Ramayana. Indeed, the Hindu conception of a 'Viman' in which several persons could fly together and which resembled more or less an Indian cot in shape and appearance is not very much different from that of a modern air-craft. The story credits Rama with flying from the South to the North after the conquest of Ravana. In the epic of the Mahabharata, there is also the use of the 'flying cot' for purposes of war Heroes are shown to have hurled destruction at the enemy from above.

But all these mythologies are probably no more than wishful thinking. They, at best, depict the ever burning desire of humanity to fly into the air. It is clear that in the ancient past no positive efforts were made at flying beyond probably a longing for it and the representation of the same longing in literature. It was towards the end of the 19th century that the first important step was taken in the direction. It started with the balloon flying and with the discovery of the gases lighter than air. Hydrogen gas filled balloons, it was observed, could soar and fly in the air even when weight was attached to them. Several attempts were made to fly with the balloons which, in many cases, resulted in the death of the pioneers. But further experiments enabled the inventors to perfect machines that could fly with comparative safety and advantage. Hydrogen was found to be risky as it was highly inflammable. Hydrogen was, later on, replaced by helium, a non-inflammable lighter than air gas. The Montgolfier Brothers achieved much success in this direction. Langley in Francè and the Wright Brothers in America made independent experiments of inventing air-crafts which could fly without the help of the balloons, that is—in which machine engines could be used to make the craft fly and stay in the air. Aluminium as a very light metal was considered immensely useful in this connection. The experiments of Langley failed but the Wright Brothers achieved success. Meanwhile the Zeppelin planes named after the name of their German inventor demonstrated the usefulness of the aeroplanes as a weapon of offence in the war. Henceforward, a considerably greater attention was paid to this important means of destroying the enemy.

Slow Development of Civil Aviation in India in the Beginning.

After the end of World War I, there was a rapid development of air services in Europe. This was due to three

important factors. In the first place, the usefulness of the aeroplane in the war had come to be recognized. Not only the aeroplane was found to be useful for bombing and machine gunning the enemy troops and important military targets, but it was found to be the speediest means of rushing in supplies to the front and of feeding the encircled or cut-off garrisions. In addition, with the development of parachute landing, they could be used to carry troops very fastly and even to land troops behind the enemy lines. In the second place, the commercial value of the aeroplanes had come to assume great importance. The air services by reducing the time-distance tended to widen the markets. It was now possible to keep a direct, regular and frequent contact even with the far off countries. Finally, most of the European countries had colonies in Africa and Asia with which they wanted to maintain a regular speedy communication not only for economic reasons but also for political and administrative reasons.

Thus, air transport made rapid strides in the European countries and the U.S.A. In India, however, there was a general apathy towards the development of this important branch of transport. The British Government was not interested in the development of this costly type of transport except when and where its own political, strategic and commercial considerations compelled it. In addition, it was visualised that the World War II, whenever it started, would directly hit Europe and not Asia. The British Government could discount the chances of the war being fought in India. It was further argued that the distances in India not only rendered mass air attacks impossible but also the air transport far more costly. The lack of technical training, of the pilots and of the general flying mindedness were other causes for the slow development of air transport in India.

But fortunately, the geographical position of India is such that despite the governmental indifference air transport had to be developed. India provides a connecting link between Europe and Australia and the countries of the Far East. For this the commercial interests in Britain and the Continent began to press for the construction of aerodromes and landing grounds in the country. Meanwhile, the rise of militant Japan in Asia and the conquest of China dispelled many of the doubts about the possibility of the war spreading to Asia. For strategic reasons, therefore, the development of the air transport including the construction of a network of aerodromes became imperative. It was because of these reasons and mostly through foreign pressure, initiative and enterprise that some progress in civil aviation was visible during the inter-war period.

Civil Aviation in India before World War II

Flying in India began for the first time in 1911 when some exhibition flights were given at different places to domonstrate to the people how the aeroplane did actually fly. The real progress in civil aviation actually began after World War I. It was noticed during the war that as a link between Europe and Australia and the countries of the East, India enjoyed an important and advantageous position. Along with about 30 other states India signed in Paris in 1919, the International Convention for the Regulation of Air Navigation. An adherence to the Convention implied that every country ratifying the Convention undertook to give certain general privileges to the aircraft of other ratifying states and to observe uniform practice in such matters as traffic rules and standard of licensing pilots and aircraft. This Convention, however, did not confer on any of the signing parties the right to operate international air transport services across the territories of other states except when it was agreed to through agreement between the countries concerned But the Government of India was inert in the matter and did nothing except providing a few landing grounds for foreign aviators. We did not yet attempt the starting of air transport services of our own.

In 1926, an Indian Air Board was constituted. The Board in May 1926 submitted to the Government of India a memorandum on the past history and a plan for the future development of civil aviation in India. The Board had argued that India had a very advantageous position for the development of civil aviation. Meteorological conditions are excellent for many months and although the monsoons do create some troubles sometimes they can be overcome. In addition, the Board pointed out that the commercial centres were so wide apart in India that ærial transport was likely to bring about a much valuable saving in time.

After examining the past history the Board made the following suggestions :—

(1) All landing grounds in India and their necessary equipment should be the property of the Government of India who should be responsible for the provision of wireless and meteorological facilities.

(2) The Government of India should claim in future to be consulted at all stages on the form of any contract for an external air service touching India and to participate as a principal in any such contract.

(3) As far as internal air services are concerned, Government should accept the principle of subsidising such services in the earlier years.

(4) India should have a regular Civil Aviation Department.

The recommendations of the Board were accepted by the Government of India. In 1927, the Civil Aviation Department was formed. Subsequently, the construction of aerodromes was started at a rapid speed and Flying Clubs were started inside the country. The year 1929 saw, for the first time, the linking of India with London by a regular weekly service. In 1932, two important developments took place in the matter of civil aviation. The internal air services were opened to Allahabad, Calcutta and Colombo by the Tata Airways Ltd. At the same time agreement was made with the Indian states wherein they permitted the running of the air routes over their territories.

Since then the policy of the Government of India has been to develop civil aviation with Indian capital under Indian management and to afford training and opportunities for employment to Indians and in the case of the participation of India in any thorough service to ensure that such participation was not only financial but technical as well as operational. In 1933, the Indian National Airways Ltd. was established. The Indian companies also got contracts to carry mails.

Prior to the outbreak of war, the following air services were in operation in and across India :—

External services

(i) The B. O. A. C. was flying 5 weekly services, twice a week, the London-Cairo-Karachi-Jodhpur-Kanpur-Allahabad Calcutta-land Plane service and thrice a week the London-Karachi-Udaipur-Gwalior-Allahabad-Calcutta-Rangoon-Australia-flying boat service.

(ii) The K. L. M. (Dutch Air Lines) were flying twice a week a service on Netherlands-Karachi-Jodhpur-Allahabad-Calcutta-Rangoon-Batavia route.

(iii) The Air France were having a twice a week service on Paris-Karachi-Jodhpur-Allahabad-Calcutta-Rangoon-Saigon route.

(iv) The Deutsch Luft Hansa, German air service had one flight a week on Berlin-Karachi-Calcutta-Rangoon-Tokyo route.

Internal services :—

(i) The Tata Airways Ltd. were running the following five services:—

(a) 5 times a week on the Karachi-Ahmedabad-Bombay-Hydrabad-Madras-Trichinopoly Colombo route; (b) once a week on the Delhi-Gwalior-Bhopal-Indore-Bombay route between October and April; (c) once a week on the Bombay-Goa-Trichinopoly route between October and April.

(ii) The I. N. A. was running one service 5 times a week on the Karachi-Jacobabad Multan-Lahore route.

(iii) The Air Service of India ran one service 5 times a week on the Bombay-Bhavangar-Rajkot-Jamanagar-Probundar route.

CIVIL AVIATION DURING WORLD WAR II :—

The immediate effect of the outbreak of war in September 1939 was that the country's external air services were drastically reduced. The frequency of the England-India-Australia service was reduced from 5 to 2 a week. The "all up" air mail scheme was abandoned. Instead heavy air surcharges were imposed with a view to reducing mail loads. The internal services for the use of the civilian population were also cut down The Karachi-Lahore service of the I. N. A. was curtailed to twice a week and the Tata service to Colombo to 4 a week. Attempts were continuously made to adopt air services in the country to war effort. Even the routes operated were changed to suit the war conditions. With the extension of war to Burma and Malaya, the Karachi-Lahore service was suspended in 1942, and a new connection between Delhi and Rangoon was established via Calcutta. This route was later on changed from Rangoon to Jorhat following the fall of Burma. New services were organized from time to time, utilizing wherever practicable existing civil air transport and where not available, the Air Force built and operated such services. As many as 17 new services were opened by the end of 1943, 7 out of which were operated by the B. O. A. C., the Tatas and the I. N. A. while of the remaining 10, 9 were operated by the Royal Air Force and one on the Calcutta-Kunming-Chunking route by the Chinese National Airways Company. The most notable feature of this new development was the linking of India to Durban, Cairo and Chunking through Tibet.

Thus, the war as it progressed, gave great impetus to the development of air services in India. Private enterprise came readily forward and the newly created Royal Indian Air Force carried out bold programmes of construction and development. As early as in 1940, ten Aero Clubs were established in India to impart instruction in aviation. In 1939, the Government of India adopted the policy of granting subsidies to the Flying Clubs in India for a period of 5 years. This was done mainly to reduce the cost of training. Assistance was given to pilots for advanced training in the U. K. A number of civil aviation scholarships were instituted. The private organisations such as the Ratan and Dorabji Tata Trusts and the public airways companies did not lag behind and instituted scholarships of their own Meanwhile, the meteorological Department was thoroughly reorganized

and over-hauled. It now began to make improved arrangements for aviation.

The Air Force:

All the civil aerodromes were taken over by the Defence Department during the war. The services of all Air Traffic Control officers were loaned to the Air Force. This continued right upto the end of war in 1945. The war gave India an opportunity of creating air squadrons. The number of such squadrons multiplied very fast. Simultaneously, a very rigorous propaganda was carried on in colleges to secure recruits of the right physique and qualifications. In many of the residential universities, air training was started as a part of extra-curricular activities. Flights were arranged at the neighbouring aerodromes. The American Air Force was instrumental in the growth of a number of military aerodromes with the most upto date technical equipment. The Government, in order to make the public air minded, organised frequent joy-flights specially for the students. The U S. Air Force establishments and the private Flying Clubs did not remain behind.

The war greatly increased the urgency of developing aviation in India. The Indian Air Force which was started in the year 1932 on a very small scale expanded rapidly. The training facilities were tremendously increased. There were, however, some formidable difficulties in the way of its expansion. The supply of machines could not be adequate. Had it not been for the Land-Lease Agreement with U. S. A., the development probably would have been slower still. The Middle-East theatre of war diverted or obstructed important supplies from reaching India. Inside the country we unfortunately did not have air-craft repairing workshops of any merit. We had also no arrangements for manufacturing or fitting parts. Never-the-less, the Air Force continued to expand. As early as in 1943, Lord Linlithgow had remarked that the Indian Air Force was expanding rapidly into a formidable weapon To-day we can rightly be proud of our strong Air Force.

The Hindustan Aircraft Company:

There were no aircraft manufacturing activities in India before the war. There were only a few engineering workshops specialising in the over-haul and repair of air-crafts and engines. The Tatas, the Indian National Airways, the Air Services of India Ltd, and the Indian Air Survey and Transport Co. Ltd. were engaged in this work

The necessity for an air-craft factory for the manufacture of air-craft became a strategic consideration after the outbreak of war. The credit for taking initiative in this case

goes to Mr. Walchand Hirachand. The Hindustan Air-craft Company was started in the year 1940 in association with the Government of Mysore. It was started with an authorised capital of Rs. 4 crores under the guidance of an American expert at Bangalore. The location was mainly determined by the availability of cheap electric power and high-grade steel in the neighbourhood. The factory was designed, initially, for the assemblage of parts and finally for the manufacture of both civil and military planes. In 1941, the Government of India decided that they should themselves take a direct part in the affairs of the Company. Consequently, the Government of India became an equal partner with the Government of Mysore and Messrs. Walchand Hirachand.

The first Indian aeroplane came out of the Factory in July 1941 and the second a month later. By February 1942, the Company had advanced its plans still further But, at this stage, the Government of India decided to operate the Factory as a Government concern. This was done with a view to reducing the 'financial risks and administrative complications involved in commerical operations'. It was also done partly for the sake of secrecy. The interests of Messrs. Walchand Hirachand were purchased by the Government in April 1942. The Government of Mysore, on the other hand, while retaining her financial interests. agreed to refrain from taking part in the management. The operations of the Factory henceforward became closely guarded secrets. On the conclusion of war in 1945, the Factory was reorganised by the Government of India under the Department of Industries and Supply. It was then used for the over-haul and conversion of dakotas for use of the civil Airliners. It has a programme of assembling and manufacturing Trainer aircraft for the Air Force.

Post-War Plan ;

In the year 1944, the Government of India announced a post-war plan for the development of civil aviation in India. The plan was formulated under tne Government of India Civil Aviation Directorate. A Policy Committee was constituted under the chairmanship of Sir Mahommed Usman, Member Post and Air Department. The Committee contained besides the representatives of the Governments of India, the representatives of the Governments of U. P., Bengal, Assam and Orissa and of some of the Indian States. Besides, it contained some non-officials. The Committee had three items to deal with *(i)* a Plan for Post-War Civil Transport in India, *(ii)* Aerodromes and air route construction and *(iii)* Aerodromes and air route organisation. His Excellency the Viceroy of India had described the aim in the following words, "Our great aim must be to plan for

economic and social development so as to raise our standard of living and general welfare." The general policy which the Government of India intended to follow in connection with the post-war air transport was elucidated by the chairman, namely—"in the international field to secure equal rights with all the other countries which may finally agree to a Convention, and in the internal field, to make air services the sole and exclusive concern of the country, to reserve cabotage and to develop civil aviation in India with Indian capital under Indian management and to afford training and opportunities for employment to Indians."

The Committee examined the past history of the development of civil aviation in the country along with the changes introduced by the war. The Committee also, *inter.alia*, examined the subsidisation of air transport in the European countries and U. S. A They suggested a number of rules for the construction of new aerodromes and new air routes. They also recommended the establishment of more local air services. Regarding external services, the general opinion was that India should participate with other countries in the establishment and operation of international services so as to gain valuable experience and establish her claim. The Committee thought that the services could best be operated by private agencies but proper governmental control and regulation was essential. Furthermore, it was recommended that Government help in the form of subsidies was necessary in the early stages. It was further suggested that air transport should be licensed and, subsequently, the Government of India established the Air Transport Licensing Board.

The Committee outlined a programme on aerodrome and air route construction involving a cost of Rs. 15.5 crores. It was an all India programme and was based upon a realistic assessment of technical and other developments during the war. It was argued that more spacious landing grounds, improved radio aids to navigation and technical equipment for increased range and altitude of flight were some of the basic considerations underlying the construction of new aerodrome or of the expansion of the existing ones.

Aerodrome Construction During the War:

Prior to 1934, an approximate expenditure of 45 lacs on the construction and equipment of aerodromes and air routes was financed out of the ordinary budget. In 19;4 a program for capital expenditure was adopted. During the period upto the outbreak of war, Rs. 95.5 lacs were spent on that account. The capital expenditure, however, covered only small aerodromes and radio stations mainly on the trans-Indian routes. Technical developments called for greater expenditure. The war increased this demand further.

The Government adopted, therefore, in 1940, a new programme of capital expenditure amounting to Rs. 222.5 lacs for the development of air routes for use during the war. Seven new routes were included in the programme. It was contemplated to spread the expenditure over seven years. But the war and technical development produced demand outstripping the provision. From 1942, the programme of expenditure was heavily reinforced by the Air Force which provided a part of the expenditure both on the existing aerodromes and on the new ones. The total expenditure on this head upto 1943 was Rs 265.5 lacs. Out of the total of Rs. 222.5 locs, Rs. 125 lacs were thus spent only in three years.

Research :

There was, however, a great lack of development in the sphere of research in Aeronautics in India. Need for it was not greatly felt because air craft industry had shown no signs of development. Recent advances in civil air transport designs and practices have brought in their wake complicated problems relating to air-worthiness and safety in operations. The post-war plans of the Civil Aviation Department envisaged the development of research. In April 1946, a small but independent Research and Development Branch was opened near the Safdarjung Aerodrome in New Delhi. Its work for the present, will be confined to investigations pertaining to Civil Aviation.

THE POST WAR DEVELOPMENT :—

We have noted above how the air transport in India made a rapid progress during the war. Development was visible in every direction. The end of war left India with a large number of first rate aerodromes scattered all over the country. It left her with a swarm of aeroplanes of all types. The Flying Clubs, which were rather well equipped provided her with institutions for training. Best of all, trained Indian personnel was available and the people had become air minded. The Indian youth had responded remarkably well to services in the Air Force. Our pilots enjoyed unstinted praise.

The Civil Aviation development programme continued almost unabated in the post-war period. In fact, the partition of the country had increased the people's desire to expand and strengthen this important branch of transport. During communal disturbance, immediately after partition, the air force and the air transport saved thousands of precious lives through the evacuation of refugees. In the Kashmir Campaign and more recently in the case of Assam earthquakes and floods, their usefulness has been fully brought out.

A rough idea about the rate of increase in recent years can be had from the following figures for two years :—

	1947	1949
Miles flown (in millions)	7·5	15·1
Passengers carried (in thousands)	189	357
Freight (in million lbs.)	2·3	22·4
Mail (,, ,,)	1·4	5·0

The Plans for Civil Aviation :—

The National Government has fully recognised the need for development of the air transport. Much serious thought has been given to the problem. The effotts to strengthen the air arm of the army and the air transport have been intensified. A new plan was formulated in 1949 to push forward the air transport development programme which was already going ahead.

The government of the U.K. has had a scheme to organise a system of air transport in cooperation with the Commonwealth countries. The whole idea is to have a concerted development of air power as a check against any future war. The establishment of an Air Board containing representatives of other Commonwealth countries is contemplated.

The Government of India have issued a yellow paper outlining their plans for post-war civil aviation. It is proposed to divide the air services into three classes (*i*) International services, (*ii*) Trunk lines and (*iii*) The Feeder Lines. Under the International Convention on Civil Aviation which India has ratified, international services will link India with the outside world. The Government of India will participate in these services.

The first concrete step in connection with external services was taken about the end of 1947 when the India — U. K. air service was inaugurated. A new company called the Air-India International Ltd., was established with 49% Government shares. The Govt., has over-riding powers in the affairs of the company. For an initial period of five years the Govt., has agreed to subsidise the company for losses, which are to be recovered out of subsequent profits. The service commenced operation on 8th June 1948 when the "Malabar Princess" took off from the Santa Cruz aerodrome, Bombay

on the Bombay—Cairo—Geneva—London route with 35 passengers and 1,700 lbs. of letter mails. On the other hand, from the 26th of May 1949, the Bharat Airways Ltd. started a service on the Calcutta—Bangkok—Hongkong route with the Skymaster type of air craft. From the 21st January, 1950, the Air-India International Ltd. started one more fortnightly service on Bombay—Aden—Nairobi route. The service is being operated with constellations. In addition, a large many foreign services now pass through India. 16 foreign air services are at present operating to and across India.

Trunk Lines.

The post-war plan provides that the Government is to take initiative in the organisation of Indian Air Trunk services which will cover 10,500 miles involving 7 5 million miles a year It is expected to introduce one return service a day between various points in India. From the 30th. January 1949 scheduled night mail services on the Bombay—Nagpur—Calcutta and Madras—Nagpur—Delhi routes have been started. Shortly afterwards, the "All—UP. Airmail Scheme" was introduced which aimed at the carriage of all mails as far as possible, by air service. Night services started in the beginning as an experiment have proved popular. Besides, the Government in order to help the development of air transport in India, have decided to give a subsidy of 9 as. per gallon of petrol uplifted by Indian aircraft in India.

Feeder Lines.

In respect of the feeder lines, the principle accepted is that they are to be left entirely to private enterprise. The provision, however, is that every air transport service must be licensed by the Air Transport Licensing Board which examines the technical and financial aspects of every service contemplated. State aid can be given only under one condition, if a scheme despite the best efforts of its promoters and despite the acquirement of technical efficiency, can not operate on no-loss basis. Ten important air services are now operating on 41 routes inside the country.

Aerodromes.

The Civil Aviation Plan also envisages the construction of aerodromes scattered all over India. In the modified scheme of August 1947, it was proposed to have 3 International, 7 Major, 13 Intermediate and 22 minor aerodromes in the Republic of India. 78 aerodromes are to be equipped with night flying facilities. The scheme for construction is intended to serve 40 towns with a population of over one lakh, 20 towns with more than 51,000 of population and 36 towns of less than 51,000 population. Thirty-four aerodromes are, at present, equipped with night flying facilities.

Aeronautical Communication Services.

India has at the present time 43 Aeronautical Communication Stations. 36 out of these are operated by the Civil Aviation Department 3 by the Airlines Operating Companies and 4 by States Unions. There are, in addition, seven Navigational Aids and seven Air Ground Communication Channels. It is proposed to bring about an exchange of ideas and information with foreigners in this connection and to increase these facilities further.

Air Training:

The Civil Aviation Training Centre at Saharanpur provides facilities for the training of operators and service personnel It turned out 712 trainees by the end of 1947. In 1948, to meet the shortage of pilots, a scheme for training about 300 pilots in three years' time was formulated by the Civil Aviation Department. The estimated cost was Rs. 75 lacs on capital account and Rs. 25 lacs as recurring expenditure. A flying school started operations in Allahabad in September 1948. The Government also decided to give financial help to privately run Flying Clubs. The Indian Gliding Association at Poona was subsidised from December 1948. An Indian Aeronautical Society has been established. The Society has decided to institute examinations in Aeronautics.

The Conclusion:

We have noticed above how in the course of nearly three decades air transport made great strides. With the clouds of war screening the international horizon, no country can to-day do without a formidable and dependable air arm. Even for peace time needs the usefulness of air transport can not be exaggerated. The Government of India is fully alive to the need. Our Air Force has expanded much faster than many believed it would. The aerodrome, radio and meteorological facilities have increased tremendously. We have also constructed a number of internal air routes. In the import of aero-machines and parts too the Government is very enthusiastic.

There are, however, two important defects in our system of air transport. Firstly, we do not produce aero-engines and vital parts of the aircraft. The Hindustan Air Craft Factory at Bangalore is expected to fill this gap. But judged from the extent of progress, one can not be very optimistic about it. The following aero-materials and aero-parts are now being manufactured in India: the Aero-Aluminium Sheets, the Aero-Tyres and Tubes, Aircraft Solders, Wooden Airscrews, Aircraft Gaskets, Plywood and Aeroplane Cotton Fabrics.

Secondly, research and development work is in infancy in India. A small beginning in the direction has, of course, been made with the establishment of Research and Development Laboratory in New Delhi. But the size of our air transport warrants much greater development in this direction. The world is changing very fastly now. Aeronautics in the countries of West has gone much ahead. India has yet to learn about the latest type of aircraft. The jets, the helicopters, the M. G. 1.15 and the Mustangs are still almost unknown to us. Nor have we got the super-flying fortresses. Our transport planes require more of landing ground especially in respect of space. The hotel and subsidiary services, the *sine quo-non* of modern civil air transport are conspicuously deficient in India.

The prospects for the development of Civil Aviation in India are indeed bright. Ours is a country of great distances. The Civil Aviation has not only a commercial and economic value, it is also a powerful instrument for social, cultural and intellectual uplift Moreover, it increases international and inter-regional intercourse removing the narrow jealousies as between different people. It is a powerful anti-war weapon in that sense. The fact is that the concept of One World is intimately connected with the development of civil aviation.

Suggestions for further reading :

1. The Indian Year Books.
2. The Government of India Civil Aviation Directorate Plans of Post-War Air Transport and Post-War Programme of Civil Aviation Capital Works.
3. The Aeradio.
4. The Memorandum of the Indian Air Board.
5. The Government of India Yellow Paper on Civil Aviation.
6. Indian Economics : Jathar and Beri.
7. The Hindustan Year Book
8. The U. K. Civil Aviation Plan.

11

NATIONALISATION OF BANKING

Synopsis :—

1. Introductory—nationalisation means state or public ownership, the idea of state intervention developed as the defects of the capitalistic system became apparent, and as democratic control of the state made headway

2. The Need for Nationalisation – Capitalism suffers from two defects, it leads to clash of interests and it occasions economic crises; nationalisation restores harmony of interests, softens the intensity of the booms and depressions and it has been recognised useful in the case of several productive activities; in nationalised industries money costs may be high but social costs are low.

3. Need for Nationalisation of Banks--it arises because of four reasons, (*i*) for the sake of profits banks often do not cater for nrtional needs, (*ii*) banks play an important part in trade cycles, (*iii*) banks finance trade and industry and are essential in every scheme of planning and (*iv*) banks deal in public money and credit.

4. The Peculiar Features of Banking in India—they are: inadequacy of banking services, ruinous competition, indiscriminate branching, wide-spread bank failures, weakness of the Reserve Bank, lack of industrial finance and foreign domination in some branches.

5. Nationalisation of Banks Abroad—tendency started after the Great Depression, central banks have been nationalised in England, Australia, Canada and France, total nationalisation has taken place in the socialist countries.

6. Nationalisation of the Reserve Bank—the Act was passed in 1948, compensation was awarded to share holders and the constitution was amended, nationalisation justified for ensuring credit control and Banking Law enforcement; nationalisation of the Imperial Bank has been accepted in principle but the other banks are not to be nationalised.

7. The Conclusion—nationalisation may create some problems in the beginning but in the long run it is justified.

Intorductory :—

The Meaning and Significane of Nationalisation.

Nationalisation is comparatively a new term. It implies in economics a system of production controlled, owned and managed by a nation as a whole. In actual practice nationalisation is synonymous with state-ownership. The state can be regarded as a representative of the nation or social community of a country. As such state-ownership ultimately comes to mean the same thing. As a matter of fact, the most frequent use of the term nationalisation to-day is in the sense of public-ownership of all or specified branches of production.

Development of the Concept.

The classical writers on economics in the early days advocated *laissez faire*. They frowned upon any suggestion regarding state interference in the economic life of the people. Ideas of Natural Order, of the Law Divine and of the Natural Harmony found much favour with them. It was emphasised that everything was best in the natural scheme of things. Fundamental human instincts and volitions working in close proximity to and in close co-operation with Nature evolved a pattern of economic and social life which was the best that could be evolved in the interests of all individually or collectively Any interference with the Natural Order so evolved has, infact, the effect of undermining the proper working of the Order. It was, therefore, not only unnecessary but also injurious. That state was the best which interfered the least with the natural pattern of economic and social life. The physiocrats and Adam Smith would limit the functions of the state only to a few specified branches of life which could not be developed through individual initiative and effort The obvious assumption of this approach was that individual self-interests could not go into conflict with social interest Each individual while tending to further his own interest furthered, rather unconsciously, also the interest of the whole society.

This belief in the harmony of interest, could not, however, last long. So long as the economic life was in the elementary stage no fault could be found with it. But in the wake of the Industrial Revolution, forces were generated that later on made the people modify this belief. As the factory system of production developed the conflict of interests became sharply well-defined and progressive state-interference to restore equilibrium came to be recognised. Finally, the whole institution of private property came to be denounced. It was argued and, argued rather seriously, whether the public-ownership of all means of production, so that production could be in the interest of the whole society, should not after all be tried. The Industrial Revolution had tended to create

economic power which when concentrated in the hands of private individuals was likely to be misused and was infact misused. State could be the best agency to be credited with this power for the state as a representative of the people could not but use it for the benefit of people.

One thing more must be remembered in this connection. So long as the state was an instrument of oppression, so long as there was no democratic control over the affairs of the state, there was a danger of the state not being run in the interests of the people. With the democratisation of the state, this fear had no scope. The state could safely be entrusted with the custody of people's interests. Moreover, in recent times, we have noticed the growth of welfare state—a state that aims at maximising economic, social and cultural welfare. This ideal can also very well be attained by the state running productive and distributive services to the best interests of the people. The factors noted above have increased the tendency towards nationalisation. It has to-day become the accepted gospel of thought if not for all at least for particular cases in Economics. The logical culmination of the capitalistic mode of production, as will be noticed later, has further increased the tendency.

THE NEED FOR NATIONALISATION.

Capitalism versus Socialism.

In the modern world we to-day find two economic systems existing side by side—the capitalistic system and the socialistic system. The former prevails in such important countries as Great Britain, the United States of America, France and India. The latter was originally a development in Russia but now extends to a large number of countries of the Eastern Europe and China. Much can be said and is being said about the merits, the demerits and the relative usefulness of the two systems. The international conflict existing to-day is a result of the clash of ideologies governing the two systems. All this may not be relevant to the purpose in view here. What is relevant without doubt is the point that the so-called capitalistic countries are now becoming reformative. They are tending to incorporate many of the features of the socialistic system. One of the important characteristic of the capitalistic world of today is an almost universal tendency towards nationalisation of certain categories of industries and services. How far this partial nationalisation will mitigate the evils of capitalism is a question that it will be better to discuss later on. But we shall do well to take stock of this development. Why should capitalism seek to modify the very mode of production that infact distinguishes it from socialism?

The working of the capitalistic system has brought to light certain serious defects. By far the most important of

them, the one that has been briefly hinted above, is the sharp conflict of interests between the various sections of the population. Capitalistic mode of production based upon the basic assumption of private property and private ownership of the means or instruments of production presupposes the division of the society into two distinct classes, *the haves, and the have nots.* There are people who own the means of production while there are others who are obliged to sell their labour to the former because they do not have the means of production of their own. These are the capitalists and the proletariat, the capitalist—employer and the wage-workers. The interests of the two are opposed to each other. Any wage increase must diminish, in general, the profits of the capitalist and vice-versa. This conflict of interests creates far reaching problems. It undermines the smooth working of the social and economic life. In the interest of progress, some harmony must he established. Unfortunately the remedy has to be searched from outside the orbit of capitalism because capitalism cannot exist without this conflict.

Another peculiarity of the capitalistic system is that it is governed almost exclusively by the price mechanism. It is the behaviour of price that determines and controls production under capitalism. A thing will be produced only when the price in respect of it is renumerative. It will be produced of the type and to the extent to which the price remains renumerative. The price-mechanism is said to be automatic or self adjusting. Any disproportionate increase or decrease of production is by itself corrected by the changes in price. An increase in production increases the supply and leads to a fall of price which may become unremunerative and will, then, lead to decrease in production. A decrease in production has the opposite effect.

Now this automatic working of the price mechanism does not necessarily mean that it acts in the best interests of the society. A slight reflection will show that the price mechanism has, in fact, the opposite tendency. Production, as we have seen, is governed by profit as a result of renumerative price. It is not governed by national needs. Production and national needs may, therefore, diverge. Things may be produced, at least in the short period, which may not be needed in the quantity or form or quality in which they have been produced. Production having thus lost pace with the national needs, two things are possible. Production may be more than needed or it may be less than needed. In other words, over—production and under—production both relate to the same cause. In actual practice, the two are co-related. Over-production now or here must

logically lead to under-production then or there. Thus, the working of the capitalistic system is characterised by the alternating periods of prosperity and slumps arising out of the lack of co-ordination between production and needs. In a technical way, we say that capitalism is characterised by economic crises.

Economists are of the opinion that the economic crises or the trade cycles as they are sometimes called can not be completely eradicated under capitalism. They can, at best, be softened up. It will be worth while to remember that Keynes had realised the fact. The economic crises have assumed such proportions and inflict so much of economic distress in the modern world that no government, unless it wants to commit economic *harakiri*, can afford to neglect them.

What Nationalisation Achieves :

Socialism is of various types so much so that Joad has been led to remark, "Socialism, in fact, is a hat that has lost its shape because everybody wears it." From Soviet Communism down to Syndicalism, Guild Socialism and finally the Socialism of the British Labour Party, there are various types. One thing is, however, common and that is that each one of them advocates common ownership of the means of production. But, in particular, nationalisation is emphasized by Rodbertus, the founder of State Socialism.

Complete nationalisation which is the characteristic feature of state socialism by removing the distinction between the employer and the employed, the capitalistic and the wage-worker removes the fundamental cause of conflict. It can, thus, establish harmony of interests.

Again, since a nationalised industry or system is to be run in the interests of the nation or the society, profit motive has very little scope. Co-ordination between national needs and national production here becomes a practical proposition. This must finally remove the economic crises.

Nationalisation of industries within the frame-work of capitalism is often recommended on one or more of the following grounds :—

(*i*) When the industry is a basic or key industry in the sense that its finished products are used as raw-materials by the other industries ;

(*ii*) When the industry is such that huge initial expenditure is required to start it so that private enterprise does not come forward despite the fact that the industry is socially necessary ;

(*iii*) When the industry is by its nature of a monopolistic type or tends to become such ;

(*iv*) When it is a public utility service;

(*v*) When the industry has a military or strategic importance; and

(*vi*) When the industry is likely to utilise idle resources which is necessary for the economic development of the country.

Thus, nationalisation is recommended where private enterprise is not likely to come forward or where, for some reasons, private enterprise can not serve a good purpose.

It is very often argued that nationalised industries cannot be run with the same degree of efficiency as privately run industries. It is a fact that government officials can be only a poor substitute for the personal care, vigilance and foresight of a private businessman. In every case of impersonal control, some scope for looseness exists. It is pointed out that as a result of this the cost structure in nationalised industries is higher than in the privately owned industries. Recent experiences from Russia should, however, dispel any such doubts. In the Soviet Union, state owned and managed industries have competed successfully with the private industries in every sphere so that the latter were finally wound up. one foactr more should be taken into account while considering the cost-structures in the case of nationalised and privately managed industries. The cost of production can be classified into two categories, viz., the money cost and the social cost which includes the total amount of sacrifice made by the society or nation in the shape of ill health, slum-clearing, opening of health services etc. Now in the case of a nationalised industry, workers are paid better wages and are provided with better conditions of work, better houses and better facilities in other respects. Little wonder, if the money cost goes up. But it is certain that all these measures must reduce the social cost. In fact, the lower money-costs in privately owned industries is often obtained at the expense of high social cost.

NEED FOR THE NATIONALISATION OF BANKS :—

Banks are those institutions that deal in money and credit. Dealing in credit or faith or belief (of course financial) is, indeed, the distinguishing feature of a bank. A bank lends much more than what it has in the form of cash. This is simply because the bank knows that the people have faith in the paying capacity of the bank and so they do not come for cash all at once. In most of the cases, the accounts of the different customers of the banks are adjusted and no cash payment is made at all. Now, in their desire to multiply profits quickly banks very often overstep the limit of safety and go on creating deposits without looking to their cash reserves. The result is that, at some time, the bank

becomes unable to meet the cash demands that must normally be made. Immediately, people begin to lose confidence in the bank, a run on the bank develops and the bank has finally to close its doors. The ruin of a bank, so far as it ruins the shareholders, should not very much matter but such a ruin has far reaching economic consequences. It lands other banks into trouble, depresses the market and may very well sow the seeds of an economic crisis. To safe-guard the interest of the depositors and of the national economy in general, there must be some check over the banks' power to create deposits. Experience has shown that in most of the countries including India statutory regulation has not remedied the situation. It is, therefore, necessary that banks like industries must work not on the principle of profit but for the national need. Nationalisation is the only way of ensuring this.

Secondly, as Keynes has emphasized while elaborating upon his Monetary Over--Investment Theory of Trade Cycles, bank, money and bank, policy plays a very important part at the time of boom or depression. Not only a trade cycle can be caused by the imprudent actions of banks but it can be softened down also by properly cannonising the bank-money. Through changes in the quantity of money brought about through the manipulation of credit money the trade cycle can be made definitely less harmful. Experience, however, shows that in this case also, except on account of drastic government action, the banks have not responded to the need of the time. A more rational monetary policy will be one which not only tries to check booms and depressions whenever they occur but which prescribes a general preventive. Nationalisation of banks must obviously serve the purpose better than any other device.

Thirdly, in the modern world, the importance of banks as the financing agencies for national trade and commerce cannot be under estimated. It is, therefore, necessary that banking services should be available for such purposes and to such an extent as the national interests demand. This, too, can best be achieved through nationalisation.

Lastly, banks, after all, deal in public money and in the confidence of the public, it is in the fitness of things that their profits must go to the public rather than to the private individuals.

THE PECULIAR FEATURES OF BANKING IN INDIA :—

Banking in India has some peculiarities of its own. It is a universally admitted fact that capital in India is traditionally shy. Despite the fact that modern banking has been in existence for nearly a century and the indigenous banking, of course, has been in existence since times immemorial,

Indian capital continues to be shy. This fact makes it necessary for us to carefully analyse the causes which induce people to hoard their savings rather than deposit them with the banks. It appears that the banks are either insufficient so that they cannot reach the heart of the country or the banks have not been able to instal sufficient confidence in the people. The fact is that both of these causes have been operating together. Most of the small towns and the whole of the vast rural areas have no banking facilities available to them. The banks hesitate to open their branches there because they feel that such branches must show losses for a considerable period of time. On the other hand, all the big towns are over-packed. There are much more bank branches than can be warranted by the considerations of trade and business; besides, there are a large number of indigenous banking houses. From the broader national point of view, this is a highly undesirable development. There is unhealthy and wasteful competition while the over-all shortage still remains.

Similarly, due to several reasons the Indian banking has not been able to infuse enough of confidence amongst the people. The European management of the banks in the beginning and the predominance of European interests until very recently was one of the reasons for it Banks were looked upon as alien to the country. Secondly, the development of banking in India has been chaotic, unplanned and haphazard. Then, in many of the cases the banks did not observe the necessary caution. The result was that bank-failures have been wide spread. 50 to 55 banks failed in 1913. The Great Depression was responsible for the failure of 238 banks during the five years from 1931 to 1936 A number of banks failed during the recession of 1938. Between April 1949 and September 1951 as many as 84 banks failed. The Government, through various legislative enactments, have tried to arrest this tendency. A new legislation to supplement to Banking Companies (Amendment) Act, 1950 is being contemplated. But no real improvement has so far been visible.

Another feature of our banking system is that the Reserve Bank of India has been financially weak in controlling the credit policy of the banks. Whenever need for control arose, the Reserve Bank was credited with the necessary powers by the government. But the action so taken was often delayed and was not exactly, in proportion to the requirements of the situation. The seriousness of this problem can be assessed from the fact that the Union Government has found it impossible to stabilise prices in the post-war period and the inflationary gap has been mounting up.

Then, India lacks in adequate industrial finances. Most of the banks are commercial banks using their funds in short-term investments. The establishment of the Industrial Finance Corporation and its parallel bodies in the States is expected to fill this gap. But the fact remains that our capital resources for industrial development are still inadequate while our banks find investment in trade more profitable than in industry.

Lastly, a substantial part of Indian banking is still being operated by foreigh banks having branches in India. Nearly all the exchange banks are foreign. These foreign banks tend to bring their own foreign bias and are often beyond the scope of Indian Laws. They also bring powerful foreign influences in our industrial ahd trade policies which are not always desirable.

The factors enumerated above show clearly that a control over Indian banking is very necessary. Experience during the World War II has shown that it is possible to harness Indian banking to a particular purpose provided it is rigidly regulated. The process of control would have been easier had we nationalised our banking. Incidently, nationalisation must also bring in other advantages of nationalization.

NATIONALISATION OF BANKS ABROAD :—

The Great Depression of 1929-32 which was responsible for a large number of bank-failures and the consequent economic dislocations throughout the world brought home the horrors of free private enterprise, to almost all the countries. Only two years after the Depression Germany was on the verge of revolution, many states abondoned democracy for dictatorship and five South American republics suffered revolution. Troubles also started in the Far East. Finally, Germany and Italy took to Fascim which is sometimes described as national socialism or national militarism.

All the socialist countries accept nationalisation of banking as a basic postulate of their social and economic theories. Consequently, in addition to the U. S. S. R., Poland, Hungary, Rumania, etc. have all nationalised banking to begin with. Same is true of China. It must be remembered that all these countries are in the stage of People's Democracy which implies retention of capitalism under the frame-work of a socialistic state.

The need for nationalising the central bank of the country has been recognised even by the capitalistic countries. Some of them, e. g., England, Australia, Canada, and France have already affected such a nationalisation while the others have introduced abundant banking legislation to curb the powers of the banks. Progressive banking legislation has been a regular feature in all the capitalistic countries of the world.

THE NATIONALISATION OF THE RESERVE BANK :—

Nationalisation of banking began in India with the passing of the Reserve Bank (Transfer to Public Ownership) Act, 1948, which became law on the 3rd September 1948. It was thought desirable to nationalise the bank to ensure a greater co-ordination of the monetary, economic and financial policies. Private share-holders and their representatives were considered a liability rather than an asset to the Central Bank. The said Act provided as under :—

(*i*) On 1st January 1949, the Union Government acquired all the shares of the Bank held by the public. All share-holders were paid compensation equivalent to the average monthly value of the share during a period of one year from March 1947 to February 1948. The payment was partly in cash and partly in forms of 3% promissory notes.

(*ii*) The constitution of the Bank was amended. All the directors are now appointed by the Government. Of the 11 directors of the Central Board, one is now a Government official, 4 represent the four Local Boards and 7 represent other interests. Each Local Board has three directors all appointed by the Union Government.

(*iii*) To incorporate the provisions relating to India's obligations as a member of the International Monetary Fund, the Reserve Bank is now enabled to hold in its issue department, in addition to sterling securities, also foreign currency and securities of any foreign country which is a member of the I. M. F. The Reserve Bank is now obliged to buy and sell all foreign currencies at the rates fixed by the I. M. F.

The natioinalisation of the Reserve Bank was, indeed, necessary in the interest of large-scale planning upon which the Union Government has embarked. The Draft-Five-Year Plan envisages an important role to be played by the Bank. It must also be admitted that it was impossible for the Reserve Bank to fully and properly use the powers granted to it under the Banking Companies Acts of 1949 and 1950 and more of which are being proposed to be given in the near future. The only danger which has to be taken into account is that the Reserve Bank may not become the tool in the hands of different political parties coming into power. Unfortunately, but for Pt. Nehru the Congress Government does not seem to be very scrupulous in such matters.

The Position Regarding the Imperial Bank.

The Imperial Bank of India has been acting as an agent to the Reserve Bank in all the places where it has branches and the Reserve Bank has no branches of its own. After the nationalisation of the Reserve Bank, the Union Government considered also the question of nationalising the Imperial Bank of India. The Government accepted the

principle of nationalisation but the action has been postponed to a future date. The Government felt diffident in the matter because of two important reasons. Firstly, the Imperial Bank has a number of branches outside India, 84 at the end of 1950 which created political complications of great magnitude. Secondly, nationalisation must, in the opinion of the Government, divest the Bank of its commercial functions which have been and still are of great importance to the country. The principle of compensation in the event of nationalisation has, however, been accepted.

The Rural Banking Enquiry Committee reporting in 1950 recognised the importance of regulating the activities of the Imperial Bank but, at the same time, thought it unnecessary to divest the Bank of its commercial functions. Thus, the nationalisation of the Bank has been shelved for how long one cannot say. In fact, the Government's policy is in consistency with the principle laid down in 1948 that there was no intention to nationalise the other commercial banks.

THE CONCLUSION:—

It will be unfair to regard all attempts at nationalisation as necessarily evil as some of the people seem to think. Nationalisation of banking does create some problems of its own. May be, in the near future, there may be technical difficulties and really capable public official may not be available. But there are always difficulties in every new scheme and in the course of time we can safely trust to the development of efficient economic service inside the country. The Government has realised that insurance must eventually be nationalised in the interests of the public. If such great risks can be assumed without much difficulty, nationalsation of banks should not be expected to cause any further trouble. In India, the lack of proper development of banking, the inadequacy of banking facilities, the traditional shyness of the Indian capital and the need for industrial finance, all call for nationalisation as a necessary remedy.

Suggestions for further Reading.

1. Modern Banking: Sayer.
2. Modern Banking in India: S. K. Muranjan.
3. Government Measures Affecting Investment in India: D. K. Malhotra.
4. The Reserve Bank (Transfer to Public Ownership) Act, 1948.
5. Report of the Rural Banking Enquiry Committee, 1950.
6. The Indian Year Books, 1948 and 1950.
7. Plan or No-Plan: Barbara Wootten.
8. Problems of Nationalisation: Dickenson.
9. Fundamentals of Economics: edited S. K. Rudra.

12

BANKING LEGISLATION IN INDIA

Synopsis :—

1. Introductory—importance of banking in the modern world arises because of two reasons, they encourage savings and increase capital and they finance industries and trade; a brief history of banking in India, the indigenous bankers and the joint-stock banks.

2. The Need for Banking Legislation—general, failure of the Bank Rate and the need for credit equilibrium; Need in India, the co-ordination of indigenous and modern banking, the weakness of the Reserve Bank, the failure of too many banks in India, to check indiscriminate branching and consequent wastefulness and to develop co-operative credit.

3. Evolution of Legislation—the Reserve Bank Act, 1934 provides for the linking of the indigenous bankers with the Reserve Bank under certain conditions: Regulation of joint stock banking begins from 1913, the Central Banking Enquiry Committee and the Indian Companies (Amendment) Act, 1936, the Reserve Bank submits proposals in 1939: Some undesirable tendencies develop during World War II, extraordinary powers are conferred upon the Reserve Bank during the War and in 1946 and 1947.

4. The Banking Companies Act, 1949—the Act was slightly amended in 1950, the Act makes a number of provisions for taking licenses, submitting returns and making deposits with the Reserve Bank, it prohibits opening of branches indiscriminately, prohibits non-banking business, lays down conditions for capital structures and formulates a Bank Law.

5. Conclusion—the Act of 1949 and 50 neglect indigenous bankers and do not attempt equilibrium of credit, nationalisation of banking is the most effective remedy.

Introductory :—

The Importance of Banking in the Modern World.

No country in the world can to-day dispense with the necessity for banking unless it intends to remain economically backward. Unfortunately as the world stands to-day

economic backwardness tends to create economic isolationism. It also encourages exploitation and aggression from abroad. It is a recognised fact that planning for a stable and permanent peace pre-supposes progressive levels of economic development specially in the backward countries. Economic isolationism, on the other hand, encourages unhealthy development of moral, mental and social outlook and discourages normal growth of human personality. Moreover, backwardness implies lower levels of comsumption, lower standards of living, poverty, idleness of economic resources, etc. All of them tend to create economic discontent which in its train bring in so many sociological and social problems.

The growth of banking institutions brings in two positive advantages. In the first place, it encourages savings. Banks provide facilities for safe and gainful investment of savings accelerating thereby the propensity to save. Normally, human beings, by their very nature, are not averse to the idea of saving. Preservation, in fact, is one of the basic instincts of animals of all types. But if the objective conditions of life are such that a proper and gainful utilisation of savings is not possible, the instinct gets modified during the course of time. Banks create the necessary objective conditions. The tendency to save, in its wake, inculcates in a man such essential virtues as the sense of sacrifice and affection for others. At the same time from the broader social and national view-points, savings are necessary for the growth of capital, the *sine-quo non* of economic well-being. Secondly, the banks play an important role in the economic life of a country. Through the granting of credit, through the financing of trade and through accommodation to the industrialists, they are instrumental in promoting the growth of the economic life of the country.

The Growth of Banking in India.

Banking in India is distinctly of two types, the indigenous banking which is peculiar to India alone and the modern banking which is carried on the western system. The former is deep rooted in the economic life of the country and has its own principles and practices. It has the great advantage of being perfectly understood by the native business community and is available in practically every town and even villages. The latter is of a comparatively recent development and is tending to replace the former specially in bigger towns and business centres.

Indigenous Banking.

This banking is as old as Indian commerce itself. Meadows Taylor discovers the existence of banking in India as early as 3000 years back and he finds testimony in the

laws of Manu. The *Arthshastra* of Chanakya describes powerful bodies of merchant bankers who received deposits, granted loans and in many ways had functions and practices similar to the modern banks. During the Muslim invasions, the loss of peace and security contributed very largely to the ruin of these bankers. Only the powerful ones out of them could survive. In many cases, the patronage of courts was extended to certain banker's families as in the case of Jagat Seth whose house was hereditary banker to the Nawabs of Bengal. The East India Company in the beginning relied on the indigenous bankers for loans remittances. But with the advent of European Agency Houses, these bankers suffered a great set back. The introduction of a uniform currency by the Company deprived them of the important money-changing part of their business and the establishment of European types of banks spelled further disaster. Still, many of them managed to survive.

The indigenous banker is even to-day an important constituent of the Indian money market. His type ranges from the petty village money-lender to the chetties of Madras whose banking operations are almost world-wide. The total amount of business carried out by them is still enormous and the growth of modern banking has not materially affected their position and prestige as their general standard of business is fairly high. In many cases they are formidable competitors for the modern banks.

Indigenous Indian banking is not organised on joint stock basis. It is usually the family capital that is used. Withdrawals against deposits are in cash and the cheque system is not followed. Usually banking is combined with trading. The indigenous shroff is an important link between the Indian money market and the trading community. Nearly the whole of agricultural industry and trade is financed by him. He is of great help to the petty artisan and the small trader. He pays a higher interest on deposits and is prepared to lend on even personal security in many cases. In effect, the shroff has personally stood to gain from the development of modern banking because it grants him accommodation, keeps custody of his funds and rediscounts his *hundis*. Their importance has been clearly recognised and it is sought to link them with the Reserve Bank of India.

The Development of Modern Banking.

Modern banking in India owes its origin to the British Agency Houses operating in Calcutta and Bombay in the 18th century. These Houses were, however, interested only in trade. They and the other Joint-stock banks following them were entirely managed by the European. The first half of the 19th century witnessed a great economic crisis

which dealt a death blow to these Agency Houses and the joint stock banks following in their wake.

During this period of crisis, at the same time, we notice the growth of the three Presidency Banks, the Bank of Bengal was started in 1806 and the Bank of Bombay and the Bank of Madras in 1840 and 1843 respectively. In 1860 the principle of limited liability was recognised and in 1862 the banks were deprived of the right of note issue. The progress upto 1880 was very slow and banking failures were very wide-spread. The Presidency Banks were acting as agents to the Government and continued to function till 1921 when they were amalgamated into the Imperial Bank of India.

The first Indian joint-stock bank named the Oudh Commercial Bank was started in 1881. Subsequently the Punjab National Bank and the Peoples' Bank of India were established in 1894 and 1901 respectively. With this started the rapid growth of banking. The strong *Swadeshi* movement further intensified the progress. There was almost a mushroom growth. Caution was, in many cases, thrown over-board. The result was that when a crisis started in 1913 many of the newly opened banks had to close their doors. The climax came with the failure of the People's Bank of India which involved many others in its ruin. Between 50 to 55 banks are estimated to have failed during this period of crisis.

World War I necessitated expansion of currency. Prices rose and trade and business flourished. There was a mild boom in banking and many more banks were established but the failure of banks continued almost as fast as their growth. The post-war period, however, witnessed some of the worst economic crises and so, a large number of banks failed. Most of the banks had been following the imprudent policy of spreading out and keeping non-liquid assets. The most important failure was that of the Alliance Bank of Simla with total deposits amounting to more than Rs. 16 crores and with a paid-up capital of Rs. 88 lakhs. The Great Depression of 1929 of which the full effects were visible in India from 1931 onwards, brought a still larger number of bank failures. The smaller banks found it difficult to continue their business. 238 out of them failed during a period of five years between 1931 and 1936. After 1936, there was some recovery but the year 1938 witnessed yet another banking crisis notably in South India. One of the biggest bank, the Travancore National and Quilon Bank was carried away by this crisis. Truly speaking, the period between 1900 and 1939 was one of major upsets for the Indian banking.

The establishment of the Reserve Bank of India in 1934 was one of the major developments in the history of banking in India. The Reserve Bank not only performs all the

functions of a Central Bank, it, in addition, tenders advice to the joint-stock banks, regulates their working in the interest of safety and, what is more, is prepared to help them during a period of difficulty.

The outbreak of war in 1939, immediately caused a heavy run on the banks in the first few weeks. Later on with the fall of France in 1940 and the conquest of Burma and Malaya by Japan which brought the war to Indian soil caused much panic and nervousness; but the Indian banks withstood the storm very well. Accommodation was offered by the Reserve Bank whenever it was approached and a number of large banks e. g. the Bharat Bank and the Bank of Jaipur were floated during the war itself. The number of of scheduled banks submitting reports to the Reserve Bank increased from 55 at the outbreak of war to 101 before partition. It stood at 91 in 1950 for the Indian Union alone. The total deposits of the scheduled banks increased from Rs. 242 crores in 1937-38 to Rs. 781 crores at the end of war in 1945. The demand liabilities increased from Rs. 140 crores in 1939 40 to Rs. 704 crores in 1945-46 and Rs. 598 crores in 1949-50 for the Indian Union. Expansion of currency during the war was the major factor for the progress of banking. In addition, the briskness of trade and industrial activity necessitated increase.

THE NEED FOR BANKING LEGISLATION :—

General Throughout the 19th century the Government of India walking in the foot-steps of the British Government followed the *laissez-faire* policy. Regulation of banking legislation in India was consequently conspicuous by its absence during this period. The modern world has, however, come to recognise the importance of banking legislation. Even England, the traditional advocate of non-interventionism, has found it necessary not only to develop a well planned banking law but has gone a step forward by nationalising the Bank of England for securing an effective grip on the banking-structure.

During the working of the Gold Standard before World War I, interference with the banking system was considered unnecessary and undesirable. Gold Standard created a self-adjusting mechanism and was considered "fool-proof and knave-proof." Furthermore, credit money had not assumed the tremendous importance it now does as a potent instrument of influencing prices and consequently production, employment and foreign trade. After the World War I the experience of the world was different. The monetary system evolved required a lot of state interference to work out successfully. It was far from being automatic. At the same time, the rapid growth of banks and of the credit money had created entirely new problems. The break

down of the Gold Standard led to the establishment of managed paper currency standards which further enhanced the importance of bank money and of its regulation.

The traditional economic theorists relied upon the device of the Bank rate to ensure credit equilibrium. Through the manipulation of the Central Banks' rate of discount it was expected to encourage or discourage credit money as desired. The experience during the inter-war period, however, exploded the myth of this approach. The Bank Rate became a very ineffective weapon. Large banking institutions could not only disregard the Central Banks' rate of discount but could substitute their own for it. At times, some of the joint-stock banks combined together to defeat the purpose of the Central Bank. More effective measures of credit regulation were, therefore, necessitated. One of the ways was the open market operations by the Central Bank. But this, too, had only limited success in view of the reasons given above. Statutory regulation through banking legislation was, naturally, the only effective way of ensuring the success of the credit policy.

It has also been observed that, in their desire to expand business and to reap profits, the banks often throw caution to the winds. It is a well known fact that every bank operates on the confidence of the people. The moment it loses confidence, its fate is doomed. The amount lent by a bank is several times greater than the amount of cash at its disposal. Through experience a bank knows what proportion of its total deposits it should keep in the form of cash so as to meet the occasional demands for cash whenever they arise. Normally in the context of prevailing economic conditions, a definite cash ratio has got to be maintained to ensure safety. The banks may and do commit mistake deliberate or otherwise in the matter. The moment a bank is unable to meet the demand for cash there may be a run on it and it may have to go into liquidation. Statutory control and regulation may be necessary to enforce caution on the banks, to arrest the failures of banks and to safe-guard the interests of the general public.

Need for Banking Legislation in India.

There are five important considerations which necessitate banking legislation in India :

(1) We have already noticed the presence of a net-work of indigenous bankers and money-lenders in India. It is generally recognised that, in order to mobilise effectively the capital resources of the country and to establish some sort of a unitary control over credit organisation, the indigenous banking must be brought into relationship with the new joint-stock banking. There is, therefore, the need for co-ordination between the two system which becomes all the

more important when we realise the fact that the two systems tend to compete with each other. The effect of this competition is unhealthy. When there is an over-all shortage of banking facilities in the country ruinous competition is to be deprecated. Voluntary co-ordination being impossible, statutory co-ordination becomes the only remedy. Such a co-ordination is not only likely to improve the position and prestige of the indigenous bankers, it must, in the long run, bring innumerable benefits to the trading community and the general public.

(2) The history of modern banking indicates that bank failures have been rather wide spread in the country. A large number of banks were started and operated without the necessary caution and with disregard to due safeguards. Bank failures do not merely affect people directly concerned but they tend to undermine the banking system as a whole. They also impose great hardship on the business community and ruin many. Through legislation growth of unsound banks can be discouraged and the banks can be forced to observe caution in their credit expansion or investments.

(3) The Reserve Bank of India has throughout been recognised to be weak in its finances and in its grip over the Indian money market. It was clearly realised that without adequate legislative powers the Reserve Bank would be unable to enforce the currency, credit or foreign exchange policies of the Government of India. The Bank Rate and the Open Market Operations are, of course, important weapons in the armoury of the Reserve Bank but they are inadequate and rather second rate as compared with the powers conferred upon it through legislative enactments to regulate the working of the money market. The success of the Reserve Bank has been almost entirely due to the presence of sound banking legislation behind it.

(4) Of late, we have noticed one more peculiar feature of Indian banking. The tendency has been for every bank to operate everywhere. In other words, the opening of new branch has not been influenced solely by the consideration of business or the need of the area. It has, in many cases, been dictated by the behaviour of some other bank or banks. An unhealthy competition in certain areas has developed. There are towns where the number of bank branches is far in excess of the demand for banking services whereas other towns may be completely neglected. This type of development is, obviously not in the best interests of the country. It is desirable to lay down some rational basis for the opening of branches. Legislation in this direction is likely to bring immense benefits both to the public and to the banks themselves.

(5) Lastly, with a view to encourage and develop the co operative credit movement specially in the rural areas, it has been found necessary to provide legislative safe-guards for the Cooperative Banks. It goes without saying that such on approach can be justified in the broader interest of the national life.

THE EVOLUTION OF BANKING LEGISLATION IN INDIA :—

Regulation of Indigenous Banking.

Regulation of this branch of banking began very late. No efforts in the direction were made before the establishment of the Reserve Bank of India. Under clause 55 (1) (*a*) 1 of the Reserve Bank of India Act (1934) the Reserve Bank was obliged through a statutory provision to report proposals regarding the indigenous banking. On the 6th May 1937, the Reserve Bank addressed a circular letter to all scheduled banks and representatives of indigenous bankers to elicit their opinion regarding the linking of the indigenous banker to the Reserve Bank. In the light of the replies received, the Reserve Bank issued a draft scheme on 26 August 1937, This was in accordance with the recommendations of the Central Banking Enquiry Committee of 1931. The Reserve Bank laid down the following five conditions for any indigenous banker to get assistance and recognition from the Reserve Bank.

(*i*) Only such indigenous bankers as operated with at least Rs. 2 lakhs of capital and were prepared to increase it to 5 lakhs within 5 years were to be put on the register of the Reserve Bank.

(*ii*) Such bankers must give up activities other than banking within a specified period.

(*iii*) They must keep proper accounts, get such accounts audited and permit inspection of the same by the Reserve Bank.

(*iv*) They must publish their balance sheets and submit periodical returns to the Reserve Bank.

(*v*) In return, such bankers were to have the right of direct rediscount from the Reserve Bank. In addition, the Bank guaranteed them such advance and remittance facilities as available to scheduled banks.

The indigenous banks found the Banks' conditions too hard to comply with. The Bombay Shroff's Association declined to give up dealings in gold, silver and oranments and to publish prescribed returns. The result was that in 1950, there were only seven indigenous bankers who had taken advantage of the Reserve Banks' offer. They were, of course, granted the same facilities as were available to the non-scheduled banks.

Regulation of Joint-stock Banking.

The year 1913, as has already been pointed out saw a great crisis in Indian banking. Need was, therefore, felt to have a separate legislation to govern the working of the banks. Consequently, the Indian Companies Act 1913 was passed which distinguished banking companies from other companies and which made some special provisions for such companies. But the Act was highly inadequate in its scope and bank failures continued unabated during the World War I and after. The Act of 1913 simply required the banking companies to observe a few formalities in the matter of the preparation of the balance-sheet, and the form in which the statement of affairs was to be published every six months.

The Hilton-Young Commission in its report in 1927 stressed the need for a unity of policy to control currency and credit and recommended the establishment of Central Bank for India. The Government, however, postponed action on the proposal. In June 1931 the Central Banking Enquiry Committee strongly urged the establishment of a Central Bank for the proper development of banking in the country. Finally, in 1934, the Reserve Bank of India Act was passed and the Bank was inaugurated on the 1st April 1935.

The Central Banking Enquiry Committee reviewed the entire position with regard to banking in India. It recommended that a special Bank Act be passed. Such an Act was of course to embody the then existing regulations contained in the Act of 1913 with suitable modifications. It was also to contain additional provisions relating to the following:- (i) Organisation of banking, (ii) Management, (iii) Audit and Inspection, and (iv) Liquidation and Amalgamation. The Indian Companies (Amendment) Act, 1936 gave effect to the recommendations of the Committee. The Act contained the following provisions :—

(i) A banking company was defined as one which, notwithstanding the carrying of a variety of functions, *e. g.*, lending of money, discounting of bills, custody of valuables, granting of letters of credit, underwriting, etc. "carries on as its *principal* business accepting of the deposits of money on current account or otherwise, subject to withdrawal by cheques, draft or order."

(ii) It must have a working capital of at least Rs. 50,000 obtained by the allotment of shares.

(iii) It must maintain a reserve fund to which it must credit 20% or more of its profits till such time as the reserve fund equalled the paid-up capital.

(iv) Banking companies were required to maintain a

minimum Cash Reserve of $1\frac{1}{2}$% of time liabilities and 5% of demand liabilities.

(*v*) Managing Agents were prohibited from managing banking companies in future.

(*vi*) A banking company was not permitted to form or hold shares in any subsidiary company unless when such subsidiary company carried on business incidental to the main company itself.

(*vii*) The banking companies were to restrict the scope of their activities to that specified in the Memorandum of Association filed before the Registrar for the purpose of registration.

(*viii*) Provision was made for allowing a banking company to affect temporary suspension of payments, provided, with the recommendation of the Registrar the court was satisfied that the company was involved in difficulties that were purely temporary.

The above Act did, in fact, go a step forward in the matter of banking legislation but it contained several defects. A separate Bank Law had not yet been formulated. The definition of the banking company was vague and was open to many interpretations. The banking crisis of 1938 which affected the banking institutions in South India to a very great extent again called for more legislation. The Reserve Bank of India in November 1939 submitted its proposals for a separate banking legislation. The proposals were based on the general principle that the primary objective must be to safeguard the interest of the depositor and to ensure the development of the country by promoting the banking habit. "They aim at establishing a net-work of properly run and financially sound banking institutions which will enable the Bank to co-ordinate the credit structure of the country and more fully utilise powers of extending credit provided by the Reserve Bank Act." The declaration of war interfered with the proposed legislation which had to be postponed.

During World War II development of banking was very rapid and very impressive but it was fanned by the inflationary conditions and as such some defects were visible in it and certain evil tendencies developed. The Reserve Bank tried to control the working of the banking system and credit development through suitable amendments of Indian Companies Act. The Governor of the Reserve Bank in his speech at the annual meeting of the Bank enumerated the following evil tendencies in the banking companies developing during the war :—

(*i*) The tendency to open branches indiscriminately in order to attract deposits regardless of the risks involved in the practice.

(*ii*) The tendency to use the depositor's money for the benefit of the management. This was done through the purchase of non-banking companies, holding of shares in industries and the flotation of investment trusts. All these measures tended to make the assets of a bank non-liquid.

(*iii*) The tendency to manipulate balance sheets so as to give a misleading impression about the bank's financial position.

(*iv*) The tendency to speculate, which extended to shares, Government securities, movable or immovable property, etc.

(*v*) The tendency to distribute profits in the form of dividend instead of strengthening the reserve fund.

The Banking Companies Bill of 1945, provided for the checking of these tendencies. But the Bill could not be presented to the Assembly due to the dissolution of that body until 1948. Meanwhile, to ensure smooth working, powers were given to the Reserve Bank under Ordinances. The Ordinance of 1946 empowered the Reserve Bank to inspect the accounts of any bank. A bank acting to the detriment of depositors could be excluded from the list of scheduled banks or could be prohibited from accepting fresh deposits till such time as the Bank thought necessary. A second Ordinance had to be promulgated in September 1947 to enable the Reserve Bank to grant emergency advances to banks affected by the partition of the country. Similarly, two other measures the Bearer Promissory Notes (Prohibition of Issue) Act 1946 prohibited the banks from issuing promissory notes payable to bearer, and the Banking Companies (Restriction of Branches. Act) laid down that no bank could open a new branch or change the location of an existing branch without the permission of the Reserve Bank.

It will probably not be out of place to stress here the fact that the Reserve Bank of India Act (1934) recognised the principle of regulation of banking by the Reserve Bank. Every joint-stock bank that had a paid up capital and reserve of Rs. 5 lakhs or more could be included in schedule 2 of the Bank. It had to desposit a minimum balance of 5% of its demand and 2% of its time liabilities with the Reserve Bank for which no interest was paid. In addition, the Bank had the right of inspection.

The Banking Companies Act, 1949.

The flotation, forms of business, capital structure and other matters relating to banking companies in India are now governed by the provisions of the Banking Companies Act, 1949 which came into force on the 16th March 1949. These provisions, in general, supplement the provisions of the Indian Companies Act, 1936 and the Reserve Bank of India Act, 1934. The Act was modified a little under the Banking Companies (Amendment) Act, 1950 which came into force on

18th March, 1950. The main provisions of the two Acts can be summarised as below :—

(I) All banking companies, whether started before or after the commencement of the Act, have to obtain a license from the Reserve Bank which is granted to a bank satisfying the following three conditions :—

(a) that the company must be able to pay its depositors in full as their claims arise.

(b) that the affairs of the company must not be conducted to the detriment of depositiors.

(c) that in the case of a company incorporated outside India such an outside country, does not discriminate in any way against Indian banking companies.

(ii) For opening a new place of business or for changing the location of the existing place of business, in or out of India, permission of the Reserve Bank must be obtained except when the change is in respect of the same town or village.

(iii) The Act prohibits trading or holding of immovable property by a banking company for a period exceeding seven years. Similarly, it is prohibited from forming or holding shares in any subsidiary industry except when such an industry is subsidiary to the general business of the company itself. A banking company can also not hold shares in any company in which its manager or directors are interested.

(iv) Banking companies incorporated outside India must have a paid up capital and reserve of Rs. 20 lakhs if operating elsewhere in India Such companies must deposit this sum with the Reserve Bank in cash or approved securities.

(v) The capital structure of the company must be such that the subscribed capital should not be less than half of authorised capital and paid-up capital should not be less than half of the subscribed capital. Voting rights shall be in proportion to the contribution of capital but, in no case, shall they be more than 5% of the total voting rights.

(vi) The company cannot have managing agents nor can it have as director any person who is a director of another banking company.

(vii) No banking company is allowed to pay any dividend on its shares until all its capitalised expenses have been paid off. A company incorporated in India must keep 20% of its profits in a reserve fund and must continue to deposit 2% of its time and 5% of its demand liabilities with the Reserve Bank.

(viii) It is prohibited from making any loans or advan-

ces on the security of its own shares and from granting unsecured advances to its directors or to firms in which it or its directors are interested.

(*ix*) After the expiry of two years, every banking company shall have to maintain a minimum 20% of its time and demand liabilities in the form of cash, gold or unencumbered assets.

(*x*) The Reserve Bank has the right of inspection of the account books of the companies. In the case of irregularities or violation, the Bank may stop the accepting of further deposits by the company or may apply for its being wound up.

(*xi*) Every company shall submit every year its balance-sheet, profit and loss account and auditor's report to the Reserve Bank.

(*xii*) The Act of 1950 lays down the process of amalgamation. When the 2/3 majority of votes are cast for amalgamation in both of the two companies, the moment the Reserve Bank approves of it, it becomes binding on the companies and the share-holders thereof.

(*xiii*) The process of liquidation has been elaborated by the Act of 1950. The official liquidator can take the help of the district magistrate to obtain possession of the properties and books of account.

(*xiv*) The Central Government can exempt any of the banks from the provisions of the Act either generally or for a specified period provided the Reserve Bank so recommends it.

(*xv*) Non-scheduled banks have also been brought within the perview of the Act.

THE CONCLUSION :—

The latest Act is, indeed, a land-mark in the history of banking legislation in India. For the first time, it has been attempted to introduce a Bank Law pure and simple. The Act provides adequate safe-guards for the depositors and, in general, must lead to a healthy growth of banking in the country. There are, however, two important drawbacks. The Act has not attempted any co-ordination between modern banking and the indigenous banking system. Similarly the Act falls short of the general requirement of harmonising credit growth with the industrial growth of the country. There is, indeed, a substantial degree of truth in the contention that banks owing their profits to the confidence of the people must be run in the interests of and for the benefit of the people. Nationalisation of banking has to day assumed a new significance and a new meaning.

The Government of India has already set the ball rolling with the nationalisation of the Reserve Bank. The nationalisation of the Imperial Bank of India has been accepted in principle but its implementation has been postponed for a furture date. Let us hope that with the emergence of a more enlightened, a more progressive and a more practical government, nationalisation of banking as a whole will become a practical proposition.

Suggestions for further reading.

1. Modern Banking in India :—S. K. Muranjan.
2. Regulation of Banks in India :—M .L. Tandon.
3. The Central Banking Enquiry Committee Report, 1931.
4. The Reserve Bank of India Act, 1934.
5. The Indian Companies (Amendment) Act, 1936.
6. The Banking Companies Act, 1949.
7. The Banking Companies (Amendment) Act, 1950.
8. Government Measures Affecting Investment in India :—D. K. Malhotra.
9. Indian Economics :—Jathar and Beri.
10. Indian Economics :—Dewett and Singh.

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THE RAIL-ROAD CO-ORDINATION

Synopsis :—

1. Introductory—the nature of the problem, the wasteful competition between rail and road transport, the problem in the West, the problem in India arises in the early thirties.

2. The Development of Railways in India—the development has been slow and lags behind in comparison with western countries, a brief history of Indian railways, the guarantee system and state ownership, the present position of railways.

3. Road Transport in India—the importance of road transport, its cheapness, historical digression, the Road Fund, the Indian Road Congress, development during World War II.

4. Railway Versus the Road in India—the development of both has been unplanned, unsystematic and haphazard, the rail-road competition develops as an aftermath of the Great Depression.

5. Rail-Road Co-ordination—the railways try to meet the competition by a number of counter measures, but the only remedy lies in co-ordination, efforts at co-ordinations start from the year 1932-33, the Rail-Road Conference, and the Wedgwood Committee make recommendations which are implemented, the Motor Vehicles Act is passed.

6. The Zoning System—in the interest of healthy development the government evolves a scheme of motor transport operated jointly by the railways, motor-operators and the State Governments, the Code of Principles and Practice for the regulation of motor transport is approved by the Board of Transport, many States nationalise road transport.

7. The Conclusion—co-ordination is most essential, a High Power Policy Committee should be established to lay down priorties for different types of transport.

Introductory :—

The development of transport especially in the twentieth century has been very rapid. Modern industries call for a more effective system of transport and communication of all

types. Large-scale industries require huge markets spread over a fairly big area. In addition, a far greater mobility of factors of production is necessary for modern production. The carriage of raw-materials, capital goods, and labour is now on a very large-scale. This, together with the need for sending the manufactured goods to the further most corners of the market, necessitates a well developed system of transport.

Internal transport in a country is of three types, the railway transport, the road transport and the air transport. The last one by its very nature is far more costly and creates tremendous problems of technical training and technical equipment. It cannot, therefore, be wide-spread. Nor can it serve as an effective substitute for the first two types of transport. It cannot naturally offer any serious competition to rail or road transport. At best, it acts as a subsidiary or supplementary to them. But the same cannot be said about the railway transport and the road transport vis-a vis one another.

Road trasport, of the two, is more recent but at the same time more wide-spread. Again, although railway transport may be cheaper in the long run, in the comparatively shorter period road transport has a distinct advantage. In almost all the countries of the world in the 20th century, a new problem regarding rail and road transport has been created. Road transport has tended to develop so rapidly that it has connected even those regions which the railways could never have been expected to cater for. In one way it has been good for the railways. It has linked the railway stations to points hitherto inaccessible to modern transport. The markets have been widened. A greater range of passenger and freight traffic has thus been opened up for the railways. But, at the same time, the developed road transport has also tended to substitute railway traffic to an increasingly greater extent. In fact, in many cases the railways have been forced to take defensive actions, to safeguard their position and business. This has resulted in improvement being effected on the railway services. Better passenger amenities, more prompt services, better care of goods in transits, more rational operation of services and opening of more rail links and branch lines have been some of the measures adopted by the Railways. In this direction, on the whole, the results have been healthy and beneficial for the road-transport services have also been compelled to take similar actions.

But in many cases, the rail road competition has led to wastfulness arising either out of duplication of services or "underselling" of services even to uneconomic points or both. It is this type of competition which is harmful not only for the two systems of transport but even for the general

long-term interests of a country. Rail road tra... ordination, as a rule, aims at eliminating or reducing this type of competition. It aims at harmonising the working of the two systems with a view to ensuring efficient and economic working not only for the two systems but for the national economy as well.

In the countries of the West where the development of railways was more pronounced and where, simultaneously, as a result of the development of automobile industries the road transport made great headway, the railroad competition had assumed quite serious proportions. To meet the situation, in England, regulations were imposed upon motor transport under the Road Traffic Act of 1930. The Inter-state Commerce Commission was created in U. S. A to control motor transport agencies.. In Italy and Germany where railways have been state-owned, great restrictions were imposed upon road transport. Thus, in almost every country this wasteful competition was sought to be abolished through proper control and regulation.

The problem was not so serious in India before the early thirties of the present century. The transport development was slow both in respect of railways and roads. But in the inter-war period road transport made great progress and began to compete with the railway transport which was itself expanding. A stage was finally reached where limitation of this competition became not only necessary but also desirable. Efforts in this direction, therefore, began to be made from 1933 onwards.

THE DEVELOPMENT OF RAILWAYS IN INDIA :—

Railways occupy a very important position in the Indian economy. It is estimated that the capital invested in railways alone is double the total capital in all other organised industries. In 1950, the total capital in all registered factories was Rs. 404 crores while in the same year in the case of railways it was as much as Rs 805 crores. At the same time, the Indian railways employed 805 lakhs of workers as against 16.3 lakhs employed by all other organised industries. It is, of course, true that in comparison with most of the important countries of the world railway development has been slow and is yet inadequate. As compared with U. S. A. which is a country of long distances like India and where agriculture is an important industry, India has the figure of 2·8 mileage of railways per 100 sq miles of area while the same figure for the former is 6. 6. Looked from yet another angle, India has 1·07 miles of railways for every one lakh of population while in U. S. A. the figure is as high as 224. Nevertheless, importance of railways in the countrys' economic life can not be exaggerated.

Historical Development.

Indian railways were an outcome of British initiative. As the industries began to develop rather rapidly in England, two problems arose simultaneously. Firstly, the expanded industries required more and varied types of raw-materials which were not locally available. Secondly, far more extensive markets were needed for the sale of expanded industries. For both these purposes India was ideally suited. Being an agricultural country having a variety of soils and climates, she was an important raw-material-producing country specially in respect of cotton, jute, lac, etc. At the same time India's huge population, without any developed industries of her own, assured of a wide and good market. Lord Dalhousie had come to the conclusion that real benefits from India could not accrue to England until and unless the British succeeded in reaching the heart of India. In other words, the development of transport was a necessary condition for either utilising Indian raw-materials or extending markets for British goods in India. Thus, the railway enterprise in India did not start until experience in England had proved that they were a definite asset Doubts were also entertained regarding the suitability of Indian conditions for railway construction.

The first railway line in India was constructed in 1849 connecting Bombay with Thana—a distance of 32 miles on the Bombay-Kalyan section of the G. I. P. Railway. Subsequently, two more lines from Calcutta to Raniganj—120 miles and from Madras to Arkonam—33 miles were open, all for experimental purposes. By the end of 1850, eight companies sprang up. The Government in the beginning introduced the Guarantee System wherein they had supplied the land free and had guaranteed a minimum interest of 5% on capital outlay. In return, the companies agreed to sell the railways to the state after 25 years or 50 years if the state so desired. The guarantee system, however, encouraged inefficiency, slackness of management and lack of initiative. There were, naturally, early disappointments and the Government found the system too costly.

The Guarantee System was scraped in 1869 and the Government started construction of railways on her own account. The system continued for ten years when in 1880 it was recommended by a famine enquiry commission appointed by the Government that 5000 miles of new railways must be constructed to reduce the horrors of famine. Since the Government had no funds for this extra construction, it again invited private enterprise under a new system of guarantee. The Government this time guaranteed 3½% interest on the capital found by the companies reserving to herself ¾ of the surplus profits, if any. The contracts

could be terminated after 25 years on repayment of capital at charge. It was thus that upto 1900, an extra 4000 miles of railways were constructed and almost all the main railway lines were completed.

After 1900, the Government again reverted back to construction of railway lines on their own account. Upto the beginning of war in 1914, the Government invested nearly Rs. 98 crores and more than 10,000 miles of branch and feeder lines were laid. During the war 1914—1919, the railway transport system completely broke down because of the shortage of engines and wagons which could no longer be imported. So much was the disruption during the war that the whole system of railways management came under severe criticism. The Ackworth Committee appointed by the Government was also equally vehement in its criticism. There were loud demands for State management of the railways and the Government found it difficult to overlook the clamour.

The Ackworth Committee reported in favour of state management. The Government accepted the recommendation and from 1925 almost all railways gradually came under State management. Hence-forward the principle of State management was fully imp'emented so much so that in his 1945—46 budget speech, the Railway member of the Government of India had proudly declared that almost 100% of Indian railways were then Indian owned and 99¾% Indian and Anglo-Indian operated. By March 1950, after the integration of Indian states and, of course, with the separation of Pakistan, all railways in India covering a mileage of 33,084 miles became Government railways leaving only 776 miles of unimportant branch lines which were not considered necessary for nationalisation. The present position is that one more branch line (metre gauge) namely the S. S. Light Railway will soon be nationalised leaving a much smaller mileage under private management.

ROAD TRANSPORT IN INDIA :—

Road transport has certain positive advantages. It does not need much capital to start the service nor is there need for much traffic to earn good dividends. In addition, the system of road transport is more flexible. The railways remain fixed to their tracks while a road transport company can pick and distribute its load and passengers from door to door. In the case of slackness of traffic, it can easily divert its route to more profitable lines. They can link up remote villages with each other and with the trade centres.

The importance of road transport in India can also be emphasized in the light of many other considerations. India is pre-dominantly an agricultural country with small villages

scattered throughout the country. No plan of economic development for the country can afford to neglect agriculture. Equally well, no plan, if it is realistic, can disregard the village economy. Village economy has some peculiar features of its own. It tends to create a type of economic self-sufficiency which reduces levels of demand and avenues of social intercourse. Village isolationism has got to be broken in the interests of social and economic uplift. Village economy, at the same time, tends to create smaller trade centres and *mandis*. The linking of these village and small trade centres is obviously uneconomical if we attempt it through the railways. Simultaneously, the importance of the bullock cart in the village economy can not be altogether disregarded. It is estimated that India has nearly 9 million of bullock carts about 4 million of which use roads. These bullock carts if equipped with pneumatic tyres can be of real help. They will not only add to the earnings of the rural population but they will provide a cheap type of transport as a supplement or subsidiary to motor transport.

A Historical Digression :

The Muslim rulers of India notably Sher Shah, Akbar and Shahjehan took an active interest in the construction, repair and maintenance of roads. With the disintegration of Mughal Empire, however, the problem was completely neglected. The East India Company too refused to take any action in the matter in the beginning In fact the Company did not realise the commercial value of roads. Real interest was first of all shown by Lord Dalhousie who, along with a railway construction programme, initiated a bold and vigorous road policy. He was instrumental in creating central and provincial Public Works Departments. Of course he was motivated in this case as in the case of construction of railways by the desire of securing raw materials and of extending markets in India. Side by side, the construction of railway lines itself necessitated the laying of roads to feed the railways With the inauguration of progressive schemes of local self-government by lord Mayo and Lord Ripon, a new chapter was opened in the history of road transport.

The World War I brought to light the fact that Indian roads were highly insufficient. In 1927, a Road Development Committee was established under the chairmanship of Mr. Jayakar. The committee made two important suggestions regarding the financing of road construction and maintenance. They argued that as the direct and indirect income from roads in the shape of excise duties on petrol and customs went to the Central Government she should build and maintain arterial roads whereas the local and provincial funds should be used for local roads. Secondly, they recommended that railway funds should be used in the

construction and maintenance of roads which feed and supplement them.

In 1934, the Government created a semi-official body known as the Indian Road Congress. The idea was to pool all professional knowledge and experience regarding road and road engineering. The Congress examines many of the technical questions and lays down bridge specifications. It also tackles the problems of test track and soil research.

The World War II created a further demand for more roads. Swiftness is the watch-word in every modern war. Swiftness without an elaborate system of road transport is, however, a wishful thinking. Moreover, the entry of Japan into the war, the fall of Malaya and of Burma and the extension of war to Indian territory increased the possibility of war spreading over to India. Roads of strategic importance had to be built in the operational areas and elsewhere. As the provinces were not in a position to develop roads to cater fully for the demands of war, substantial grants were made out of Defence Estimates for this purpose.

In 1943 in consultation with provincial governments, the government of India prepared a plan called the Nagpur Plan for road development. The Plan envisaged a ten year programme. The Plan has made a distinction between various types of roads and the spheres of the Centre, the Province and the Local Bodies have been clearly laid down. From the 1st. April 1947, the Union Government has assumed financial responsibility for the construction and maintenance of National Highways and the subject has been included in the Constitution. The proposed Draft Five Year Plan makes an ample provision for road development in the next five years.

RAIL VERSUS THE ROAD IN INDIA :—

A careful study of the development of railway transport and road transport will indicate that, in general, the two systems, atleast in the earlier stages, had completely independent development. No systematic pre-planned policy had been followed in respect of any. The development of railways in the earlier stages can be described as haphazard. They destroyed old towns and old centres of trade, commerce and industry and created new ones on an uncoordinated basis. They undermined the old structure of India's economic life while, at the same time, they could not create a new structure. At best, they were successful in creating distributing centres for foreign goods. It was only much later that as a result of them new industrial and commercial centres came to be established. To a certain extent, the same position continues even to-day.

The construction of roads has also been similarly unplanned and unsystematic. As has been previously pointed

out, the original intention was to carry raw materials out from their places of production and to open Indian market to foreign mercandise. As a result of the policy enunciated by Lord Dalhousie the effect of the Indian railways on the construction of roads began to be felt greatly. Roads were constructed either to link up important railway lines to trade centres in the heart of the country or to substitute railway traffic where it did not exist. In general, roads were built more to feed the railways than to compete with them. But this position soon underwent a change, railway construction which was itself unplanned and mostly designed to serve the present needs lost all contact with the road construction programme. The Wedgewood Committee in 1937 had reported that 30% of the metalled roads in India were parallel to the railways while 48% of the railways had roads parallel to them within 10 miles.

The rail-road competition.

The unplanned construction of railways and roads thus led to an uncoordinated development of both the systems of transport. On account of several reasons, the road transport is cheaper than railway transport. In fact, while the railways have themselves to in cur the capital expenditure on the construction of the railway lines, in the case of road construction it is borne by the tax-payer. Then there are no costs incurred in the maintenance and repair of the track. In addition, the road services plying companies do not have to keep, the signallers, the linesmen, the station staff and establishment and so many other employees without whom a railway company cannot possibly operate. More particularly, in the case of short distances railways can never afford to compete with road transport in cheapness.

In the early thirties, the rail road competition first raised its head and within a very short time it assumed great seriousness. The Great Depression starting in 1929, hit India as it did in the case of other countries of the world. During the period of Depression, the railways could not reduce their freight and passenger rates because their cost and capital structure did not undergo change. The road transport services, on the other hand, in the hope of getting greater traffic, began to quote irresponsible and sometimes even uneconomic rates. The result was that much of rail traffic was diverted to roads. The railways were so impoverished that they could not even earn enough to pay the interest on capital at charge or their general contribution to the general revenues. This was the beginning of all troubles. The problem created became almost formidable and it has continued to be so ever after except during the period of war when the overall scarcity of transport did not leave any scope for competition. In the post-war period, as the normal working of transport is

gradually returning the old problem is coming to life again. Schemes of road transport nationalisation have tended to remove many of the undesirable features of this competition. But it will do well to remember that this wasteful and ruinous competition should be carefully eliminated in every future plan of rail or road transport development. That the Government of India is keenly alive to it is indicated by the recognisation of the importance of rail-road coordination in the Ministry of Transport Report of 1950—51.

RAIL-ROAD CO ORDINATION :—

How the Railways tried to meet the Competition?

The loss of income as a result of road transport competition compelled the railways to adopt certain counter-measures. The East Indian Railway, for example, started omnibus services of its own. Adjustment of time tables, cheap return tickets and seasonal tickets, special rates for marriage parties, more passenger amenities, starting of special trains at concession rates, and the running of sentinel coaches and shuttle-trains were some of the measures adopted by the Indian railways. In India, the position was that while the rail transport was state-owned, road transport was operated by private companies. It goes without saying that the standard of service and the wage-bill in railways was bound to be higher than in the case of road transport services. The Mitchell-Kirkness Report estimated in 1932 the annual loss to the Indian railways on account of road competition at Rs. 190 lakhs. The Wedgwood Committee put the annual loss at Rs. 450 lakhs in 1937. They further contended that the loss was tending to increase continuously because road mileage was increasing, roads were becoming better and the organisation of motor transport was steadily improving. The Wedgwood Committee recommended a number of measures to be adopted by the railways to meet the road competition. The Committee was not in favour of any general reduction in railway fares as that was likely to lead to heavy financial losses. The following three recommendations are note-worthy :—

(1) An information bureau should be organised for the purpose of railway publicity and for the purpose of securing close contact with the Press, the traders and business men in the country.

(2) As regards passenger traffic, faster passenger trains, better connections, more intensive services, improved passenger amenities and cheap rates for special purposes or occasions should be introduced.

(3) For goods traffic, faster trains, better handling, simplication of clerical formalities, development of collection and delivery services, use of containers and railway storage were recommended

The Indian Railways (Amendment) Act of 1933 had already accepted the principle of allowing the railways road transport services of their own. The recommendations of the Wedgwood Committee were gradually given effect to. As a result the railways examined the possibility of passenger and road services and placed their proposals regarding the competitive and feeder road services before the Provincial Governments.

Co ordination is the only Effective Remedy:—

The above analysis makes it clear that the need for co-ordination is really great in India in the interest of a healthy development of transport. In almost all the foreign countries where similar problems have arisen, through various legislative enactments rail-road co-ordination has been attempted. Co-ordination implies a rational adjustment of transport services of all kinds adapting them to public needs. It aims at the elimination of unnecessary duplication, irresponsible fare reduction and the consequent waste of money, time and national resources. In a country like India, it is too much to expect for a voluntary co-ordination. There are only two alternatives, namely, either to completely nationalise all transport or to limit the spheres of different systems of transport through statutory regulation so that they do not overlap each other and work in their own spheres.

Efforts at Co-ordination.

The first attempt in the direction was made when in 1932-33 a small committee of two officers consisting of Mr. K. G. Mitchell, Road Engineer with the Government of India and Mr. L. H. Kirkness, Officer on Special Duty on the Railway Board went into the question of rail road competition. To consider the report of this committee, a Road-Rail Conference was called in Simla in 1933. The Conference adopted a resolution for the co-ordination of effort between the various authorities for the development and control of different forms of transport so as to reduce uneconomic competition between them. The Conference made two important recommendations, one relating to the removal of statutory restrictions on certain railways operating motor services, and the other relating to the creation of a machinery at the centre and in the Provinces to secure rail-road co-ordination. Consequently, the Railway Act was amended in September 1933 and railways were permitted to operate road transport services. In 1935, a Transport Advisory Council consisting of the representatives of Central and Provincial governments was formed. The function of this Council was to evolve a rational road policy to be followed by the provinces for the furtherance of co-ordinated development of road, rail and other forms

of transport. As a result of the recommendations of the Road Development Committee, a new Department of Communication incharge of railways, posts and telegraphs, civil aviation, roads, ports, etc. was created at the Centre. The creation of a single department was expected to ensure a more co-ordinated policy of adjustment.

The findings of the Wedgwood Committee in the matter were of much greater importance. The Committee had reported in 1937 that the regulation of road transport by the Provincial Governments was inadequate and it had encouraged unorganised and inefficient road transport which was not very trustworthy The Central Government was exercising control only through the Road Fund which in many cases retarded the growth of road construction. The Committee, therefore, recommended the regulation of road transport not only to eliminate their competition with the railways but also in the interest of safe development of road transport itself along sound lines. It was observed that the regulation of road transport could best be carried out by Provincial Governments. What was needed was that the Central Government must lay down uniform principles in the matter. The Committee advocated the participation of railways in road transport. While it was found desirable that no undue restriction should be placed on road transport which may hamper its growth, excessive provision and maldistribution or road transport facilities must be avoided. While the statutory regulation for co-ordination could not be dispensed with, voluntary co-ordination must be urged.

At the recommendation of the Wedgwood Committee, the railways tried to meet road competition as has been detailed above. In 1939, the Motor Vehicles Act was passed to deal with the rapid growth of motor-transport. The Act had two aspects, the regulative and the co-ordinating. The Act created regional authorities in the different transport areas of a province to control motor traffic. There is also the provision of a provincial transport authority for a province as a whole. All motor trucks and buses under the provision of the Act must obtain permits for operation. It is through the granting of permits that a control is exercised and uneconomic competition is sought to be eliminated. The Act, however, could not achieve much by way of rail-road co-ordination. During the war, the competition was conspicuous by its absence because of the over-all shortage of transport and, therefore, no efforts to eliminate it were required.

The Zoning System of Co-ordination :—

The Union Government now, under the Nagpur Plan, takes a direct interest in road construction. The Government of India have promulgated a rail-road co-ordination scheme aiming at unified control of transport and its development

with a view to checking the unregulated cut-throat competition of the pre-war days. It is designed to stop rate-war between roads and railways and to avoid unnecessary duplication of services. Under the Road Transport Act of 1948 the Provincial Governments have been empowered to incorporate, regulate or wind up Transport Corporations.

The Zoning System envisages the formation of Joint Companies in which road-operators, railways and Provincial Governments hold shares in fixed proportions. In its meeting held on the 29th. March 1950, the Central Board of Transport considered the provisions of a draft Code of Principles and Practice for regulation of motor transport. The Board decided that, in the interest of co-ordinated development of roads and railways the provisions of the Code, as finally approved by it should be implemented by all the State Governments. Some of the States have, however, accepted the Code only with reservations. Road transport undertakings in which railways have been associated are at present operating in the States of Bombay, Madhya-Pradesh, Punjab and Orissa. The Bombay State Road Transport Corporation was set up in 1949. The State Government has 75% and the railways 25% of the financial interest. In Bihar, Uttar Pradesh and Kutch the road transport has been nationalised by the State Governments. Work in connection with the scheme is proceeding in all other States.

The Conclusion.

The need for development of transport, both rail and road, cannot be under-estimated. Continued expansion in both the directions is very desirable. But at the same time, we must guard ourselves against unplanned and unco-ordinated development of the two. It will not only ruin the two services in the long run but it will spell disaster for the development of national economy. What is needed, therefore, is a unified scheme of transport development. The present state of affairs can be remedied either through the participation of railways in the operation of road transport or through the nationalisation of road transport. Both of these processess are going ahead simultaneously. It will, however, not be out of place here to point out that the Government of India should appoint a High Power Policy Committee to lay down the order of priorty and the extent and direction of development for the different forms of transport systems. It is indeed a pity that despite the over-all shortage of transport inside the country ruinous competition should prevail.

Suggestions for Further Reading:—

1. Problems of Transport Co-ordination in India : S. K. Guha.
2. The Mitchell-Kirkness Repoit.
3. Proceedings of the Rail-Road Conference (1933).
4. The Indian Railway Enquiry (Wedgwood Committee) Report (1937).
5. Indian Economics : Jathar and Beri pp. 170—175.
6. Indian Economics : Dewett and Singh.
7. The Nagpur Plan.
8. The Motor Vehicles Act (1939).
9. The Code of Principles and Practice for the Regulation of Motor Transport (1950).
10. Ministry of Transport Report 1950—51.

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THE INDO-PAKISTAN TRADE DEADLOCK

Synopsis :—

1. Introductory—the partition was agreed to as a political necessity, it was not an economic division, no exchange of population was effected, partition created wide-spread communal disturbances and bitterness.

2. The Immediate Economic Effects of Partition—it was an arbitrary division, India got 82% of the population and 71% of the area, food surplus areas went over to Pakistan, industries fell to India and cotton and jute producing areas became parts of Pakistan, India lost artisans and Pakistan lost capitalists and managerial skill as a result of migration.

3. Basic Assumptions of Partition—communal harmony was expected, because of interdependence of economy free flow of goods was stipulated for and a Standstill Agreement was signed.

4. The First Indo-Pakistan Trade Agreement—it was for one year from July 1948 to June 1949 but did not work, another agreement was signed in June 1949 providing for exchange of cotton and jute for cotton cloth, steel and coal, Pakistan imposed import duties and violated the Agreement, the Indian rupee was devalued in September 1949 and non-devaluation by Pakistan caused a trade-deadlock, the Nehru-Liaqat Pact was signed in 1950 and a new trade agreement according to which Pakistan agreed to deal in Indian rupees was signed.

5. The Indo-Pakistan Trade Agreement, 1951—it is for the period from February 26, 1951 to June 1952, India recognises the Pakistan rupee rate at Rs. 144= Rs. 100 of Pakistan, India will export chiefly coal, iron and steel goods, and cement in exchange for cotton, food grains and jute, at the end the balance of trade will be unfavourable to India by Rs. 50 crores, the agreement is in two parts from Feb. to June 1951 and from July 1951 to June 1952, the Agreement has not been a great success, the Government of India unnecessarily delayed matters.

6. A Critical Estimate of Indo-Pakistan Trade—it is a series of Pakistani mischief, India has not been realistic and bold.

7. The Conclusion—future prospects are not good, the murder of Liaqat Ali may create troubles.

Introductory :—

The partition of India was agreed to as a political necessity. It was observed that it was impossible to get any type of cooperation from the leaders of the Muslim League except on their own terms. The cries of Islam in danger and Pakistan had so roused the communal fanaticism of the people that is was impossible to undo the mischief that had already been done. The association of the representatives of Muslim League in the centre had been an utter failure. It had created more problems that it had sloved. Then started the Direct Action of the Muslim League. Extensive communal riots broke out in Calcutta and for a number of days the town had a blood bath. The communal disturbances spread rapidly specially after the carnage in Noakhali in the East Bengal. major disturbances started in Bihar, the U. P. and the Punjab. no town and even country-side was free from it.

The British Government, after the experiences of 1942, had realised that it was no longer possible to restore the good old days. In the immediate post-war period, there were growing signs of discontentment in the armed forces. There were also some attempts at rebellion of which the mutiny of the Royal Indian Navy was the most serious. Meanwhile, in the General Elections immediately after the war the Conservatives were defeated. More progressive people, the representatives of the British Labour Party, came into power in England. A more sympathetic consideration was given to the Indian demand for Independence. But the British interests which had not only supported but were, in fact, actually responsible for the Muslim fanaticism rising high, tried the old trump card again. It was argued that the communal situation being serious, the exit of the British must, inevitably, fan the flames of communal riots. The partition of the country was demanded as the price for independence. For a considerably long time the Congress Leaders hesitated but, since the choice was between partition and the continuance of the hated British rule, the first of the two alternatives was chosen in the hope that it was the better of the two evils. The Hindu Communalism and a large amount of Congress rank and file found it difficult to reconcile itself with the idea but, finally, when the Indian National Congress accepted partition there was not much public agitation against it.

It was hoped that the creation of a separate homeland must satisfy the political, religious and, above all, the sentimental aspirations of the Muslims. The Congress was so sure of the honesty of purpose on the part of the Muslim leaders that they did not demand an exchange of population on the religious basis. The wrongness of this belief was,

however, proved almost immediately after partition. Wide-spread communal disturbances aimed at the annihilation of the Hindu minority started in the West Punjab. This had its repercussions in India also. Large-scale exhodus of refugees across the borders of India and Pakistan started until West Punjab was freed of the minority community. The communal trouble did not end here. Troubles began in Eastern Pakistan and in West Bengal. The minorities felt highly insecure. Even to-day the exhodus continues more to India than to Pakistan. This has contributed considerable to the Indo-Pakistan tension and is still a very important factor. Meanwhile, the Junagarh, Hydrabad and the Kashmir problems created trouble. Relations between the two countries became strained. The problem of Kashmir is still unsolved and it is contributing to the existing bitterness to a very great extent. To sum up, the creation of Pakistan was an outcome of hatred and bitterness. It has continued and still continues to be the source of it. It is in the light of this bitterness, that we have to consider the problem in hand, namely, the Indo-Pakistan trade-deadlock.

The Immediate Economic Effects of Partition.

The Arbitrary Division of Indian Economy.

The division of the country was not based upon economic consideration. The basis was communal. The Muslim majority areas of N. W. F. P., Baluchistan and Sind of the British India went to the share of Pakistan. In respect of the Punjab and Bengal, the Hindu majority districts of the eastern and western part came to India and the muslim majority districts fell to Pakistan. In respect of the Indian States, the principle laid down was that they could accede to any of the two Dominions taking into consideration the contiguity and geographical factors. From the economic point of view, it was not only an unsound division but rather an unfortunate division.

Of the total estimated population of nearly 40 crores in 1947, India got nearly 33 crores and Pakistan 7 crores. The percentage became 82% for India and 18% for Pakistan. In respect of area, we got 12,21 thousand square miles as against 361 thousand miles for Pakistan. This works out to 71% of the total area for India. India was thus left with only 71% of the total area to support 82% of the population. The percentage now has increased slightly by the migration of minorities from Pakistan. The recent census puts the total population in India at 34.7 crores. The economic implications of the larger share of population acquires a greater significance in view of the fact that undivided India was suffering from a severe food shortage. Partition separated the food surplus areas of Sind and West Punjab from India. Ordinarily, West Pakistan has an export

surplus of 5 to 7 lakh tons of wheat and 1½ lakh tons of rice. West Punjab, in addition, has got the most of the irrigated area of the undivided Punjab. It works out to 65%. Pakistan, thus, got not only surplus areas regarding food production but also areas where scope for growing more food exists. The result has been that the food production in India has remained more or less fixed and the increased population has been fed with imported food which is expected to increase from 2.8 million tons in 1948 to 3.7 million tons in 1951. Much of the deficit in India's balance of payment nearly 60% is accounted for by these heavy imports of food.

In respect of industries, the effect of partition has been still more disastrous. Most of the refugees from India were artisans and skilled workers who created a serious scarcity of suitable labour for Indian factories. Similarly, Hindu capitalists and businessmen had to leave West Pakistan which caused a general scarcity of capital, managerial skill and business experience. But this is only one side of the picture. Of the total number of 394 cotton mills in the undivided India Pakistan got only 14 and India the remaining 380, while, of the total area under cotton, Pakistan got a little over one-fifth which was responsible for the production of 11 lakh bales of cotton as against 22 lakh bales in the whole of the Indian Union. All the 111 jute mills came to the share of India while 73% of the jute growing area of undivided Bengal became a Pakistani territory. This created a curious situation. While India had to keep her jute mills idle and expand the production of raw jute, Pakistan could not export the whole of her raw jute and, in the absence of jute mills, could not process it either. India had to face an additional difficulty in view of the fact that the quality of both cotton and jute grown in Pakistan is superior.

In respect of commercial crops like oilseeds, tobacco, tea, coffee and rubber, India has had an advantageous position. While in respect of raw hides and skins, wool, fruits and rock salt Pakistan is more fortunate. In respect of coal and iron, the total output in Pakistan is negligible while in respect of the supply of a large number of other minerals her position is equally hopeless.

Professor C. N. Vakil has summarised the relative advantages of India and Pakistan in the following manner :

In respect of industries, industrial labour, industrial establishments, capital resources, managerial skill, business experience and minerals India has been better placed while in respect of food, raw cotton, raw jute, artisans, population pressure, irrigation facilities and industrial raw materials Pakistan has a more favourable position. Specially marked have been the difficulties with regard to coal, sugar and cotton cloth in Pakistan. She has also encountered serious difficulties for lack of iron and steel production.

The Basic Assumptions of Partition :—

The partition of the country implied certain basic assumptions. In the first place, it was agreed to in the hope of improving the communal situation. With the creation of Pakistan, it was expected that saner ideas would prevail. It was not contemplated that huge masses of humanity would be uprooted from their home and hearth. The estimates were that the economic situation after the initial jerk would gradually stabilize. But events proved that it was a false hope. Whatever might have been in the minds of the Indian leaders the Pakistan leaders willed otherwise. The tremendous refugee problem, thus, caught the Government in the Indian Union, at any rate, unaware.

Secondly, it was assumed that the two dominions would realise the mutual interdependence of their economics at least for sometime to come. Before the partition need of one part of the country were met by a movement of goods from others. In fact, it was simply a question of internal trade and internal adjustments. It was assumed that this free flow of goods across the borders between India and Pakistan would continue. No major economic dislocation was thus foreseen. But even this assumption proved wrong. Undivided India's internal trade was of great dimensions. Conservative estimates tend to put it at 15 times the external trade. Partition made Pakistan a foreign territory which coupled with the serious communal disturbances completely dislocated and disorganised the trade between the territories that remained India and those that became Pakistan.

When on 15th August, 1947 the Indian sub-continent was divided, it was agreed that the two Governments would not impose any restriction upon the free flow of goods between the two countries at least until February 28, 1948. It was agreed not to raise tariff or customs barrier in respect of the interdominion trade. A Standstill Agreement was also signed to this effect. But while the Agreement still continued, Pakistan imposed an export duty on raw jute which affected such exports to India. Thus, the first signs of a trade rupture became visible and there were big protests from India. But Pakistan remained adamant. Despite this, India continued to impose restrictions on her own exports of raw jute to avoid competition under the terms of the agreement. But when the Standstill Agreement expired, from 1st March 1948, Pakistan was declared a foreign country for the purpose of normal licensing of exports and imports and for the purpose of tariff restrictions. This naturally caused a certain amount of economic hardship to both the countries and finally it was decided to conclude another agreement.

The First Indo-Pakistan Trade Agreement :—

An Inter-State Agreement was signed between the

Governments of India and Pakistan in May 1948. The agreement was for a period of one year from July 1948 to June 1949. Under the terms of the agreement, the Government of India agreed to curtail her exports of raw jute to avoid competition with Pakistan. She also agreed to supply specified quantities of steel to Pakistan. But hardly had the Agreement come into force when the Government of Pakistan started to violate it. Not only consignments of jute bound for Calcutta from East Pakistan which were already paid for were not allowed out of East Bengal but Indian goods in transit from Calcutta to Assam and Tripura were detained and consignments of jute proceeding to Calcutta from Assam were held up in East Bengal. When the Government of India reviewed the trade position in December 1948, she found that Pakistan had completely failed to honour her obligations under the Agreement. Protests were made in vain to Pakistan. It was observed that while imports from Pakistan continued to flow in exports from India were seriously hampered. Fresh attempts were made in April 1949 to make Pakistan agree to a rebate in duties on a reciprocal basis. But the Pakistan Government found herself unable to agree to any comprehensive long-term agreement in regard to the production, manufacture and sale of jute and cotton. The earlier agreement had provided for an exchange of raw cotton with cotton textile goods from India. But as Pakistan lifted only a part of her import quota from India, India's balance of trade with Pakistan became unfavourable to the tune of nearly Rs. 32·67 crores between April 1948 and March 1949.

Another Agreement is Signed.

On 24th June 1949 another trade agreement was signed with Pakistan. It was agreed that India was to supply 150 thousand bales of cotton cloth and 80 thousand tons of steel to Pakistan, in exchange for 40 lakh bales of raw jute and 4½ lakh bales of raw cotton. India also agreed to supply a certain quantity of manufactured goods and 1·7 lakh tons of coal every month which was later to be increased to 2 lakh tons as soon as the transport conditions eased.

The fate of this Agreement was not, however, different from the previous ones. A virulent propaganda for the boycott of Indian goods was started in Pakistan. The Government also, in view of its past bitterness and as a result of the strong public reaction, started discriminating against Indian imports. On August 17, 1949, the Government of Pakistan announced an *ad valorem* duty of 15 to 18% on cheaper cotton piece goods from India and raised the existing duty on higher priced piece goods from 30 to 36%. This was done at a time when the Pakistan Government had reduced to half the import duties on cotton goods from the

other countries of the world. Finally on September 21, 1948 the Government of Pakistan cancelled the Open General License for mill-made cloth and other items from India and from November 12, no import lincenses for the import of Indian cotton textiles were granted. This marked a final breakdown of Indo-Pakistan trade.

THE DEVALUATION OF THE INDIAN RUPEE :—

Already in July 1949, the new Indo-Pakistan Trade Agreement had stipulated for a reduction of 20% in the import of raw jute and 30% in the import of raw cotton from Pakistan. This was done to effect equilibrium between India's export and import trade with Pakistan. Another peculiarity of this Agreement was the inclusion of such commodities as linseed oil, bauxite and electric sheets in the items of exports from India. The Agreement was expected to facilitate inter-dominion payment through the holding of Rs. 15 crores worth of currency by the Central Bank of each dominion in respect of the other's currency. If the amount was not sufficient for the purpose, provision was made for the transfer of sterling to the extent of Rs. 20 crores.

On 21st September, India decided to devalue her rupee in terms of the U. S. dollar. All the coun ries' of the Sterling Area had done so following the devaluation of the Sterling. Pakistan, however, decided to follow a different course. She took a no-devaluation decision. This created a great difficulty in Indo-Pakistan trade. The decision of Pakistan implied appreciation of her rupee in terms of the Indian rupee so that Rs 144 became equal to 100 Pakistani rupees. For India it meant that she had to pay 44% more for imports from Pakistan whereas her own exports to that country now fetched less of Pakistani rupees. Strong protests were made to Pakistan in this respect but Pakistan remained adamant. Strong beliefs have prevailed in India that considerations other than economic influenced the behaviour of Pakistan. The fact, however, is that Pakistan expected some major political and economic advantages out of the decision. Two great temptations before Pakistan were, (i) that by no-devaluation her debt to India would be reduced to the tune of 30% or so and (ii) that as the demand by India for Pakistani raw jute, food and raw cotton was inelastic she must buy them whatever the price.

The Government of India discovered that it was not possible to work the jute-mills profitably if 44% higher prices were paid for raw jute. Even before devaluation the demand for jute goods from India had been continuously shrinking because of the competition from cheap substitutes for jute bags. Only a raising of the prices of jute goods would have eliminated losses arising out of higher cost of raw-material. This would have led to a further fall in the demand for

jute goods The Indian Jute Mill Association, therefore, suspended the purchase of raw jute from Pakistan. The position with regard to cotton was not much different. Indo-Pakistan trade tangle has shown that Pakistan would rather dispose of her cotton surplus to foreign countries than to sell it at a profit to India. She has been and is anxious to purchase machinery and equipment from abroad to utilise her raw jute and raw cotton in her own mills. She, infact carried on negotiations with Japan, Australia, Argentine, etc. in this connection. She even sold raw jute to Italy and France. The Government of India was convinced that any long-term arrangement with Pakistan was not possible. She naturally decided to grow more of jute and cotton of her own and explored the possibilities of importing cotton from Egypt, East Africa and such other countries.

The Government of India decided not to recognise the new value of the Pakistani rupee and refused to trade on the new exchange rate fixed by Pakistan. Trade between India and Pakistan came to a standstill. India levied export duties on certain category of goods as a part of post-devaluation policy. Exports to Pakistan declined as a result of this. Similarly, imposition of new import-duties on Indian goods further complicated the situation. The banks refused to offer remittance facilities on the new rate of exchange. As a retaliation to the stoppage of Indian jute in transit from Assam, India stopped supplies of coal to Pakistan in December 1949. Pakistan retaliated by stopping the exports of even such jute as had been purchased and paid for before devaluation. A complete trade deadlock between the two countries ensued.

The Nehru Liaqat Pact and Trade Agreement of 1950.

The political situation in Eastern Pakistan had meanwhile worsened mainly as a result of the oppression of the Hindu minority. Fresh exhodus on much larger scale started form East Bengal. Muslims started migrating from the West Bengal. The threats of agression in Kashmir and the war-like hysteria in Pakistan disturbed the tranquility of the Indian Government. Troops had to be moved to the Pakistan border to meet any eventuality. The Government of Pakistan realised that there was a serious danger of war between the two countries. A definite stiffening of the attitude on the part of India was visible. Mr. Liaqat Ali, the Prime Minister of Pakistan rushed to Delhi. An agreement was signed between the two countries in respect of the migration of minorities and the proportion of such migrants. This has gone into history as the Nehru—Liaqat Pact. Immediately after this Pact and as a part of it, a short term Trade Agreement was signed between the two countries at Karachi in April 1950. A certain modification of attitude

on the part of Pakistan is effected by this Agreement. The basis of trade was accepted in the Indian rupees and the Pakistan Government agreed to run a special account for this purpose. It was agreed that goods of equal value in terms of the Indian rupees would pass between the two countries. Pakistan provided for the supply of 8 lakh bales of raw jute to India and, in return, India agreed to supply jute manufactures, steel goods, cotton textiles, coal, mustard oil, etc. Even this Agreement was meant to be broken by Pakistan and normal trade could not be resumed.

THE INDO-PAKISTAN TRADE AGREEMENT, 1951 :—

A new Indo-Pakistan Agreement was concluded early in 1951. The agreement came into force on the 26th. February 1951 and it extends upto 30th June 1952. The most remarkable feature of this Agreement is the acceptance by the Indian Union of the new ratio of Rs. 144 (India) = Rs. 100 (Pakistan). The Agreement covers a period of one year and four months. During the period Indian exports are estimated at Rs. 100 crores while her impors from Pakistan are valued at Rs, 150 crores. This will make Pakistan a creditor of India for Rs. 50 crores. Indian exports are to consist mainly of Coal, iron and steel goods while Pakistan will export chiefly cotton, foodgrains and jute.

The Agreement Analysed.

A wide range of goods is included in the Agreement. The Agreement was divided into two parts. The first part was valid upto 30th June 1951 while the second part covered the period between the 1st. July 1951 and 30th June 1952. During the first period the Government of India agreed to supply 6 lakh tons of coal, 5 thousand tons of soft coke and 10 thousand tons of hard coke, the last to be delivered upto the end of December 1951. In addition, during the same period 6·4 thousand tons of big iron and 7 thousand tons of structural steel, 7500 tons of soft wood and timber, 25,000 tons of cement, 1,000 tons of papers, 5750 tons of mustard and linseed oil, 50 tons of chlorine, 12,500 tons of jute goods, some quantities of waste cotton and Rs. 5 lakhs worth of rubber goods were to be supplied by India. Pakistan agreed to supply 10 lakh bales of jute, 2½ lakh pieces of cow-hides and 2 lakh pieces of sheep skins, and any quantities of raw cotton. In addition, she agreed to supply 4½ lakh tons of rice and 3 lakh tons of wheat and wheat flour upto October 1952 and 20,000 tons of gram upto April, 1952.

In the second period, India is to supply 15 lakh tons of coal, 20,000 tons of soft coke, 20,000 tons of big iron 56,300 tons of metal and steel goods of a wide range, 15,000 tons of soft wood and timber, 75,000 tons of cement, 5,000 tons of paper, 17,500 tons of vegetable oil, 15,000 bales of handloom

cloth, 75,000 bales of mill-made cloth, 15,000 bales of cotton yarn, 50,000 tons of jute goods and an agreed quantity of shellac. As against this, Pakistan has allowed purchase of any amount of raw cotton available in Pakistan and has agreed to export 25 lakh bales of raw jute, 10 lakh pieces of cow-hides and 6 lakh pieces of sheep skins to India. In addition, she has also made provision for some exports of mustard oil cakes.

The Agreement is elaborate in respect of the details. Adequate arrangements have been made with regard to fixation of the price, sampling and inspection, packing and transport. To arrange for payments, the following machinery has been devised :—

In respects of purchases of foodgrains from West Pakistan, the Government of India has opened an account in the Imperial Bank of India at Karachi in favour of the Government of Pakistan from which after the observance of due formalities payments can be made to the Pakistan Government In case of food-grains purchased from East Pakistan, spot payment by the agents of the Indian Government accepting the delivery has to be made.

A Review of the Progress under the Agreement.

The first phase of the Agreement is now over and the second phase is running. It is difficult to keep to the schedule in respect of any trade agreement specially of a short duration. At the same time, economic conditions in the two dominions have not yet been completely stabilised. The political tension, the migration of minorities and, above all, the lacunae in the working of the economies have further aggravated the position. History has tended to repeat in the case of Pakistan's promises and professions. While the Indian attitude has, in general been of sobriety and mutual co-operation, Pakistan has not yet given up her utter disregard of obligation and her general policy of attempting to disrupt the Indian economy.

Complete figures in respect of the exports from India and Pakistan to each other are not available upto the present period. The Agreement, of course, has not been carried to the letter. The position upto May 15, 1951 was that Indian exports amounted to a little over Rs. 4 crores while her imports from Pakistan were in the neighbourhood of Rs. 3.5 crores. Indian exports of coal have been hampered largely because of the shortage of wagons in respect of which a request to the Pakistan Government has been already made. About 37,000 tons of foodgrains were imported by India upto July 1951. The movement of raw jute has been very slow. Only about 50% of the stipulated quantity came upto June 30, 1951. In respect of raw cotton, the textile industry feels that, in the context of the present prices of cloth in

India, such imports are highly uneconomic and there have been little imports consequently.

The rapid expansion of jute and cotton production in India has considerably reduced her dependence upon imports from Pakistan in respect of them. We have also been able to obtain cotton from U. S. A. and other sources. In the matter of food grains, the situation is now much better. Burma has resumed her exports of rice. China has become a new supplier. Some additional quantities of wheat have also come from Russia and Canada. Above all, the food loan of 2 million tons of wheat by the U. S. A. in respect of which the cargoes are being discharged at our ports, has inspired great confidence. If our food production drive continues, we shall probably be able to reduce our dependence to a still greater extent.

The Feasibility of the Agreement.

The Indian Finance Minister, Mr. C. D. Deshmukh has had a very tough job in handling the Indo-Pakistan trade relationship. He is often accused of having agreed to the threats and the blackmail of Pakistan. Such criticisms are rather harsh. Mr. Deshmukh has expressed a great sense of realism. He has realised as a practical economist that mere sentimentalism does no good in the face of hard economic realities. It has to be recognised that there is a world shortage of raw materials now. Pakistan as an important exporter of raw materials and with no large-scale programme of any material industrial development is economically in a better position than India. Even at the overvalued prices she is not likely to feel the lack of customers. Her only disadvantage has been in respect of jute. Because she has a great rival in India in that matter. India has potentialities for expansion of jute plantation without detriment to her grow more food campaign. To a very great extent, she has reduced the dependence of her jute industry on Pakistani imports. Unfortunately for Pakistan, jute mills are not in any considerable number in Europe. The trade deadlock has caused a great economic distress in the jute growing areas of East Bengal. It has ruined the cultivators. Such was the widespread discontent that the ruling circle has found it desirable to turn the people upon a general loot and massacre of the minority community to divert their attention.

That the Government of India was wrong in not recognising the exchange rate of the Pakistani rupee earlier needs no proof now. 17 long months were wasted simply because the Government believed that the no-devaluation decision was untenable and unmanageable on the part of Pakistan. The delay in accepting the official rate for the Pakistani rupees not only reduced our foreign exchange earnings but caused a great scarcity of cotton cloth inside the country.

The Indian Finance Minister's argument that India had agreed to the resumption of trade "in the altered circumstances" which had created "a radical change in the economic situation of the world", in favour of the raw material producing countries like Pakistan, was only a face-saving device. The Government of India had pinned her hopes on the fact that the world will not recognise the new Pakistan exchange rate. But immediately after the Indo-Pakistan Trade Agreement, the International Monetary Fund decided in favour of Pakistan. India who opposed the same tooth and nail thus suffered a serious loss of economic prestige.

A CRITICAL ESTIMATE OF THE INDO-PAKISTAN TRADE :-

We are now in a position to judge fully in the light of the historical review presented earlier, the true character of our trade relations with Pakistan. The events right from the time of partition indicate that Pakistan has, right through, dishonoured her obligations in respect of India. Every trade agreement was made by her not so much to implement it as to throw dust into the eyes of the world. A belief, probably not without foundations, persists in Pakistan that the Anglo-American powers are behind her. The disgraceful handling of the Kashmir affair by these powers should leave no scope for doubt in this respect. Pakistan has, naturally, thought that she can take any liberties with India. The weak-kneed policy of the Government of India has made the Pakistan Government all the more obstinate. Had the Pakistan Government been taught in the language that it understands in respect of the Kashmir aggression and the massacre of minorities, things would have been probably different. Every successive trade agreement shows an humbler submission to Pakistan's threat. Events have shown that Pakistan is not interested in any of our exports except coal and she is, on no account, prepared to develop normal trade relations with India.

It is true that our industries have to depend upon raw materials from Pakistan and the inflation and food shortage are our very unscruplous guests, but nobody can describe the economy of Pakistan sound either. The whole history of our economic policy right from the time of Independence is the history of incompetency, fool-hardiness and bankruptcy. The Prime Minister of India has only tall talk and fine hopes for us in the economic sphere. He has nothing concrete or substantial to give. It was senseless to surrender to the exchange rate of the Pakistani rupee. At any rate if it was to be done, it could have been done 17 months earlier. The net result of this acceptance has been that the debt which Pakistan owed us has been drastically reduced while we are no better off in respect of jute, cotton and food grains.

THE CONCLUSION :—

The partiton of the country has been a great misfortune. The price for freedom has been rather heavy. The ruling circles in Pakistan have not yet given up the old tactics of blackmail adopted by the Muslim League in undivided India. They still enjoy the backing of their former masters, the British. The Government of India has adopted a less realistic and a more lenient attitude in respect of Pakistan than was actually warranted by facts.

The future prospects for Indo-Pakistan relation do not appear to be bright—Pakistan has developed into a fascist state. She believes in the wholesale annihilation of religious minorities. She has developed a semi-dictatorship. It is futile to expect reason or fairplay from her. Experience, at least, belies it. It would have been better if India had adopted a more firm policy. As a raw material producing country herself, India is at no disadvantage against Pakistan.

The murder of Mr. Liaqat Ali Khan, the Prime Minister of Pakistan is a significant event. It will be premature to predict the outcome of it. One thing is, however, certain: there is utter discontent against the ruling clique in Pakistan. The only danger is that those in power may not attempt to divert the growing tempo of discontent into a major conflict with India.

Suggestions for Further Reading.

1. Economic Consequences of the Partition : C. N. Vakil.
2. Basic facts Relating to India and Pakistan Eastern Economist Pamphlet No. 5.
3. The Statistical Abstract.
4. Indo-Pakistan Agreement—Will it Succeed ? edited K. C. Lalmani.
5. The Budget Speeches of the Indian Finance Minister 1948-49, and 1949 50.
6. The Indian Economics : Dewett and Singh.
7. Evolution of Indian Economy : K. K. Sharma.

15

THE MANAGING AGENCY SYSTEM

Synopsis :—

1. Introductory—three types of management of a joint-stock company, managing agency system is a peculiarity of India, they are powerful Houses.

2. Functions of the Managing Agents—formulation of a company, managerial work, purchase and sale agency, financial assistance, lending of name and reputation.

3. The Origin and Development of the System—started by Europeans in 1833, developed chiefly because of, dearth of managers, paucity of funds, shyness of capital, late development of joint-stock enterprise and practice of banks.

4. Terms and Remunerations—office allowances, fixed commission, contracted % of profits, fixed commissions on purchase and sale, and insurance charges, the Indian Companies Act limits their remuneration.

5. Importance of the System—advantages are combination of partnership with joint-stock enterprise, financial help, experienced management, inter-industry cooperation and combinations; disadvantages are, inefficiency, personal gains, unwise transfer of funds, illicit exactions, supersession of directors.

6. Statutory Control—no provision in 1931, the Act of 1936 limits their powers in respect of promotion, appointment, remuneration, transfer of funds, and nomination on the board of directors; Banking Companies Act, 1949 prohibits managing agents in banking companies.

7. Present Position—they are powerful and indispensible, the Fiscal Commission, 1950.

8. The Conclusion—legal provisions do not do the whole job, managing agents must bring in internal reforms; the suggestions are statutory regulation in respect of whole time employment, commissions, and powers of directors; they are indispensible for private enterprise.

Introductory :—

The bussiness units in India to-day are almost all joint-stock companies. But in respect of them the forms of supervison and management differ widety. Broadly speaking, we can distinguish between three types of management. In some cases the directors concern themselves only with broad questions. The entire work of management is left in the hands of a paid manager. In others, one or two directors become managing directors. They carry on the normal duties of management and supervison and are paid some special remuneration for the work. But the third type, known as the managing agency system, is the most characteristic form in India. Under this system, the work of management is left entirely to a firm of managing agents. Such a firm is generally a private partnership The managing agents are established under a contract and are paid adequate remuneration for their services. There are in India a number of well established and reputed firms of managing agents. Usually each of such firms acts as agents to a number of companies at the same time, such companies not always concerning the same industry or business.

The managing agency system is a curious appendage to the joint-stock industrial organisation of India. It fundamentally alters the character and working of such organisation. Except in the field of banking, almost every joint-stock company has managing agents attached to it. It will, however, be a mistake to assume that the managing agents concern themselves *only* with the problems of management and supervision. They are powerful bodies and almost inevitably exercise important powers over the control, expansion and the general policy of the company. In the course of time they tend to dictate their own ways and become so to say the *de facto* owners of the company. The share-holders continue to enjoy the nominal rights granted to them but in actual practice the managing agents are the real masters of the situation. They become the financiers of the company, they sell shares under their own names and they lend their own name to the company. For all practical purposes, therefore, the managed company becomes their own and its work and policy are governed accordingly.

Functions of the Managing Agents.

As has already been pointed out, the company tends to be identified with the managing agents that run it. They perform a large number of functions of which the most important are the following :—

(*i*) The managing agents work for the formulation of a company. They become under-writers. It is just possible that the contemplated industry may not be able to inspire

adequate confidence in the general public and the sale of its shares may be limited. The managing agents then come forward. They explore the possibility of available facilities and scope for the industry to be started and if the chances are fair, they prepare the company's prospectus and underwrite the shares of the company. Since they are reputed firms, this inspires the necessary confidence. At the same time, the managing agents themselves purchase the unsold shares and gradually sell them *on to the public.* They, thus, become the pioneers or, so to say, the real founders of the concern.

(*ii*) After the formulation of the company when the concern starts working, they carry on the managerial functions. In this case they become the real executive authority and perform all the functions of the manager including the control over labour and the working of the concern.

(*iii*) They purchase raw materials, machinery and other requirements of the concern on its behalf and sell its finished products. They also act as the agents to the concern and carry on the insurance of plants, buildings and stock in trade.

(*iv*) They render the necessary financial assistance to the concern. Such assistance may be given through the sale or purchase of shares, through the arranging of loans from the banks and through direct lending.

(*v*) They permit, to the concern the use of their goodwill and financial reputation. It is upon their personal guarantees that the banks advance loans to the concern. Then again, the reputation of the managing agents induces the moneyed men to deposit their money with the concern.

Thus, the managing agents tend to combine in them at once the functions of promoters, managers, purchase and sale agents, financiers and guaranteeing authorities. Their financial interest in the concern is quite considerable.

THE ORIGIN AND DEVELOPMENT OF THE SYSTEM :—

The managing agency system originated in 1833. In that year British firms were given the charter of trading in India. Now these firms required the services of agents who could live in India and manage the business on their behalf. They were thus the first to appoint managing agents in India. Gradually, the system became popular specially because of the lack of men with business ability in India and the Indian companies also thought it necessary to utilise the services of these reputed financiers and experienced managers.

The chief reason for the development of this system lies in the peculiar economic conditions obtaining in India. It

is an imperative necessity in the earlier stages of industrial revolution when want of capital and enterprise stood in the way of industrialisation in India. The financial support of the managing agents has helped considerably in overcoming the initial difficulties of industrialisation. They have acted as poineers in many industries and their name has created confidence about the soundness of the company. Since they were powerful bodies, it was discovered that the industries not utilising their services were at a disadvantage The practice of employing managing agents, therefore, became almost universal. The following peculiarities of Indian economy have been responsible for the growth and development of the system and since many of these peculiarities still continue it is difficult to dispense with their services without detriment to the national economy :—

(*i*) India has suffered and continues to do so from the lack of managerial talent and skill. The general atmosphere inside the country was not an industrial one and facilities for training were almost non-existent. Even the existing facilities fall short of the requirement. Personnel management, one of the important branch of the industrial management, is, even to-day, an unknown science in India. Every company naturally tried to utilise the best skill that it could get on reasonable terms. The managing agents as men of experience had bright chances.

(*ii*) The financial facilities available in India have been highly inadequate. This has been due to two causes: (a) The traditional shyness of Indian capital is a well-known phenomenon. The amounts raised from the investing public are consequently highly inadequate. In general, the saving capacity of the general mass of population is extremely low. Then, most of the savings disappear into idle hoards or into ornaments and do not find their way to the investment market.

(*iii*) The banking-facilities are not available in required quantities. In the first place, the development of banking has been slow and even now vast areas have not been able to get the benefit of their services. In the second place, most of the banks in India are commercial banks dealing in short-term finance. They either do not give long-period loans for industries or demand exacting securities for such loans. It becomes very difficult for a new industry to give the type of security the bank demands.

(*iv*) The joint-stock banking developed in India rather late and at the same time such special financial institutions as the issue houses did not develop in India. The Managing Agents thus remained the most important source for the supply of finance either directly or indirectly through guarantees from the banks.

All these causes combined together to throw industrial enterprise in India into the hands of the managing agents. The Textile Labour Enquiry Committee discovered in 1938 that of the total loans of the cotton mills, advances by managing agents amounted to 76%. The same is very nearly true of the other industries and industrial centres.

THE USUAL TERMS AND REMUNERATIONS OF THE MANAGING AGENTS :—

As we have noticed above, the functions of the managing agents are many. Also the services that they perform are of various types. They naturally reward themselves in a variety of ways. Their usual remunerations are of the following types:—

(*i*) They take a fixed monthly office allowance to cover the expenses of clerical and secretarial establishment run and maintained by them.

(*ii*) They also take a commission in the shape of the manager's salary. This gives the agents a fixed income irrespective of the profits of the concern. This commission is often calculated either an a monthly or on a half-yearly or on a yearly basis. This is, in a way, the remuneration for the actual work of supervision by the managing agents.

(*iii*) They charge a fixed contracted percentage on profits. Such an income must necessarily change along with the fortunes of the concern. In a way, this makes the agents interested in the efficient and economic operation of the concern The interests of the share-holders and the managing agents are thus reconciled.

(*iv*) Since the managing agents also act as purchase and sale agents of the concern, they charge a commission on the actual sales and purchases conducted by them. This is an important source of their income and deprives the concern and its share-holders of the normal shares in such commissions or of the reduction in buying and selling costs.

Before the passing of the Indian Companies Act 1936, the managing agents were free to contract in respect of the commissions and remunerations. The above Act, however, has imposed a strict restriction. The Act prescribes that that the managing agents can take only a fixed percentage of the total net profits as their remuneration, subject to the provision that such remuneration will not be less than a certain specified minimum But if the share-holders so sanction, other commissions may be paid and the above rule can be modified. In actual practice, the passing of the Act has not produced the desired effect. The managing agents are often so powerful and the position of the ordinarily share-holders in their comparison is so weak that they have

not found it difficult to dictate their own terms and to make the share-holders agree to the same.

THE IMPORTANCE OF THE MANAGING AGENCY SYSTEM :—
Its Chief Advantages.

The managing agency system combines the partnership type of business organisation with that of joint-stock type. It is of course a fact that each has its own advantages and its own short-comings. Usually the managing agents are a partnership while the company or companies that they manage are joint-stock companies. Combination of the two makes available the advantages like keen personal interest, initiative and adaptability of partnership to the large-scale production of the joint stock company. In addition, several other important benefits are secured to the industry by the managing agents

In the first place they are important financiers. Not only have they been responsible for the starting of many new industries but they have also come to the help of their industries in the times of difficulties. Even at occasions when finances were not coming from any other sources, such agents have saved the industry from collapse. In the second place, the managing agents make available to the industry all the advantages of trustworthy, experienced and expert management. Thirdly, since the managing agents manage a number of industries of the same or of different types at the same time, they ensure financial co-operation in respect of the industries under their management. This helps in two ways: (a) it ensures that there will be no competition and (b) the surplus funds of one industry are made available to the others. Lastly, they are instrumental in securing a large number of external economies to a particular industry. Raw materials are bought at one time for a number of industries, *similarly*, the same sales organisation works for many industries. Very often requirements of one industries are procured from another and cost of production and selling costs are thus reduced. There is also saving on account of office establishment. Sometimes, combinations both horizontal and vertical can be established in respect of the industries under the same managing agents.

The Abuses of the System.

Under the system the control and management of a large-scale joint-stock company passes into the hands of a few individuals. Thus, vast economic powers get concentrated in fewer hands. These powers are often abused and the system degenerates not only to the disadvantage of the share-holders of the country but also to a still greater disadvantage of the consumers and the national economy. The

share-holders gradually lose their hold even on the policy of the company. All the earnings are swallowed by the agents. Not infrequently, it has been observed that the managing agents have become rich even when the company has actually incurred heavy losses. The following are the chief abuses of the system :—

(i) The management of industrial concerns by the managing agents is not always efficient. The ownership of managing agency often devolves upon incompetent and inexperienced heirs and assignees not expert in their job.

(ii) The motive of personal gains often predominates in their case. For this they have not often hesitated to act even contrary to the interests of the company under their management. They have also been often accused of accepting illegal gratifications.

(iii) The managing agents have often made unwise transfer of the funds of one industry to another causing thereby wastage and loss.

(*iv*) Very often the banks do not scrutinise the necessity for loans to an industry because of the guarantee of the agents. This leads to over-capitalisation, over-production and finally losses.

(*v*) Their remuneration, in general, has no relation to the services that they render. Commissions are often so high that they seriously tell upon the finances of the company. The managing agents do not hesitate to claim commission even for rendering subsidiary services.

(*vi*) They often supersede the directors and run the industry for their personal benefit.

Even from the national point of view they have often been injurious. When the managing agents charge commission on the basis of output, they generally cause over-production and endanger the stability of the whole economy. Moreover, they have often wasted the economic resources of the country for self-aggrandisement.

We have noticed in the brief discussion above that the managing agency system performs much useful work in the promotion and management of industries in India. But, by virtue of the huge financial and supervisory powers which the managing agents wield, they do not always act to the best advantage of all. The system is basically good but a free and unrestrained working of it is capable of much harm. There is need, therefore, to curb its power to remove the various abuses to which the system is open. The Government of India has not been blind to the necessity for it. A number of measures have been adopted to rob the managing agents of their powers of mischief.

STATUTORY CONTROL OF MANAGING AGENTS :—

In the Indian Companies Act, 1913, no provisions were made to deal with the special position of the managing agents. After this period the degeneration and abuses of power in the system were so great that definite measures had to be introduced in the Indian Companies (Amendment) Act, 1936. With little modifications, the position of the managing agent is still governed by this Act. The Industrial Commission of 1931 had examined the whole position very carefully. The Commission recognised the importance of the managing agents as the instruments for the building up and developing of Indian industries. At the same time it was argued that if the share-holders themselves choose inefficient or top heavy management, they should very well pay the price for their lack of vigilance and injudicious selection. It was, however, recognised that the managing agents, by virtue of their tremendous financial powers, were often beyond the control of the shareholders.. They were also an actual and potential danger for the smooth and stable growth of the national economy. The Commission, therefore, recommended a statutory control of their powers.

The Act of 1936, to begin with, makes provision for making the shareholders more vigilant and enlightened. It requires the following in this connection : *(i)* compulsory disclosure in the prospectus of the terms of managing agency agreement, the names of the managing agency partners and the nature of the interest direct or in direct which the directors of the company have in the managing agency and *(ii)* the managing agents must keep proper accounts and must publish detailed balance sheets and profit and loss account. Non-Compliance in respect of the latter may be punished even in a criminal court.

The following are the main provisions of the Act :—

(i) The appointment of the managing agents is not valid unless it is sanctioned by the company in its general meeting or unless it is shown in the prospectus on the basis of which the investors agree to subscribe.

(ii) The Managing agents will not be appointed for a period exceeding twenty years in respect of public companies and their subsidiaries. All managing agencies existing on 15th January 1937 will automotically terminate after 20 years of their working unless when they are renewed,

(iii) Unless when a special revolution of the company so provides, the managing agents appointed after 15th January 1937 will be remunerated on the basis of a fixed percentage of net annual profits subject to a stipulated minimum.

(iv) The directors are not entitled to delegate to the managing agents the power to issue debentures and the

managing agents are prohibited from investing the funds of the company without the consent of the directors.

(v) The assignment of office or remuneration by the managing agents is prohibited unless the same is approved by the company in a general meeting.

(vi) No public company or its subsidiary is entitled to advance loans to its managing agents or their partners unless the same is in the shape of current deposits with such agents.

(vii) A consent of three-fourths of the directors present and entitled to vote is necessary to permit managing agents to enter into trading contract with the company.

(viii) No public company is authorised to lend its funds to any other public company under the same managing agents nor can it purchase the shares or debentures of any such company except with the unanimous decision of the Board of Directors.

(ix) The managing agents are prohibited from carrying on any business likely to compete with the business of the company under their management.

(x) A managing agency is not entitled to appoint more than one-third of the whole number of directors notwithstanding any agreement to the contrary.

A careful study of the provisions of the Act will show that while in many respects substantial curtailment of the powers of the managing agents has been attempted, the Act does not go the whole length. There are loopholes of which the unscruplous managing agents have not hesitated to take advantage. When the terms of the managing agents are shown in the prospectus they usually receive better terms because the common investor is not very keen about the actual details of the prospectus or articles of association of the company. Similarly, since the general body of the shareholders is entitled to fix any basis for the remuneration of the managing agents, such agents have usually exerted pressure and influence for securing the most advantageous basis. The powers in respect of the removal of the managing agents are also extremely limited. The principles and procedures of justice have, however, been satisfied by making the managing agents responsible for the proper maintenance of the company's books of account and by compelling them to render all possible help to the liquidators even on pain of imprisonment. But in general, their powers have continued almost unrestrained to a considerable extent. The principle whereby no director is permitted to vote for any contract or arrangement in which he is directly or indirectly interested limits the power of the managing agents to vote for themselves.

The Banking Companies Act, 1949 has introduced one important provision. It prescribes that a banking company

should not be managed by a managing agent or by any person who is a director of any other company (except a subsidiary company) or is engaged in any other business or has a contract with the company for its management for a period exceeding five years at any one time.

THE PRESENT POSITION OF THE SYSTEM :—

The Legislation has affected a great improvement and, in several cases, the apparent stiffness of the managing agency agreements have been considerably toned down. In many cases the managing agents have voluntarily relinquished their commissions in bad times. They are still the real financial backbone of our industrial structure. But for their timely help, the ruin of industries would have been great. A great majority of industries still depends upon them for the supply of real useful managerial skill. What is, however, significant is that their illicit gains have continued. They are to be universally condemned but unless more enlightened share holders and investors come forward it will be very difficult. The fact is that no law, howsoever harsh, can safeguard the interests of those who are not careful and vigilant. For running a joint-stock company three important qualities are needed in the share holders. Firstly, they must be enlightened, secondly, they must take interest and thirdly, they must act in a corporate spirit. As things are, all of them are seriously lacking in India.

The Indian Fiscal Commission, 1953 has reviewed all the relevant questions of industrial development in India. Its observations on the managing agency system require special attention. The Commission has postulated that there is a general two fold dearth in our industrial structure. Trained and experienced managers are highly inadequate and the sources of industrial finance are uncertain and insufficient. For these two reasons, the Commission has recommended that the absolution of the managing agency system will influence adversely our industrial efficiency and expansion. The Commission is not blind to the malpractices of the managing agents but they are an indispensible source of strength to the Indian industries. They must, therefore, stay. But they must stay in a more reasonable and more beneficial manner.

THE CONCLUSION :—

It is possible to agree with the views of the Industrial Commission of 1931 that the Managing Agency's list of success is longer than its failure chart. One can also fully endorse its recommendations that the managing agents should introduce internal reforms of rationalisation, scientific management and that they should work in a spirit of responsibility for the safe-guarding of national interests. They must

explore new and fruitful avenues of industrial development and must generate a healthy competition to eliminate the conservative, the incompetent and the reluctant in them.

Of late, however, certain more objectionable features of the system have come to light. They have severely interfered in the management even to the great detriment of the share-holders. Loopholes have been discovered in the statutory regulations and the get-rich tendency has increased. The debit side has tended to expand. It is suggested that new statutory regulations on the following lines may be found useful :—

(*i*) The managing agents must be made whole time employees of the company and should not be permitted to manage too many concerns.

(*ii*) Commission should be solely on the net-profit basis.

(*iii*) Greater powers should be given to the share-holders to control the managing agents.

(*iv*) The managing agents should be prohibited to hold shares indirectly through bogus directors.

Thus, what is recommended is not a scraping of the system but a modification and reformation of it. The National Government has already recognised the scope of private enterprise in the industrial development in future. It will do well to remember that the private sector will not work well without the active cooperation of the managing agents.

Suggestions for further reading :—

1. Organisation and Finance of Industry in India : Samant and Mulky.
2. Business Organisation :-Rup Ram Gupta.
3. The Indian Companies (Amendment) Act, 1936.
4. Report of the Industrial Commission.
5. Report of the Indian Fiscal Commission, 1950.
6. Indian Economics : Dewett and Singh.
7. Financing of Post-War Economy : S. K. Basu.

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ZAMINDARI ABOLITION AND LAND REFORMS IN INDIA

Synopsis :—

1. Introductory—abolition of Zamindari is now a settled fact, the problem has not become hackneyed reforms must come ; Paul should not be robbed if Peter is not to be paid.

2. The Origin of Zamindari—it is difficult, Baden-Powell gives following ways of origin, division of old estates, grants, usurpation by revenue officials, through revenue farmers, conquest and colonisation, grants by the British and purchase by the money-lenders ; the British discovered strong allies in the Zamindars.

3. The Need for the Abolition of Zamindari—it might have had advantages in the beginning but now it has disadvantages such as unearned income, loss of agricultural prosperity, rent-rocketting, loss of productivity, inelasticity of State revenues, tyrannies and internal decay.

4. The Abolition of Zamindari—the case for abolition arises from historical, equitable, humanitarian and political viewpoints ; abolition grew out of the Congress pledge, Famine Enquiry Commission and the N. P. C. Report.

5. What Next ?—what will be the substitute for Zamindari, there are four, collective farming, cooperative farming, state ownership and peasant proprietorship.

6. Zamindari Abolition and Land Reforms in Actual Practice—in U. P. all rights vest in the Govt., Zamindars get compensation, *bhumidars* and *sirdars*, common land belongs to *gaon sabhas* ; similar legislations have been introduced in West Bengal, Bihar, Madras, Bombay, Madhya Pradesh, Rajasthan, Madhya Bharat, Mysore, Orissa and Jammu and Kashmir.

7. The Conclusion—Zamindari abolition is a step in the right direction but much remains to be done, trial should be given to co-operative and collective farming.

Introductory :—

The abolition of Zamindari is now a settled fact. There has been a prolonged legal hitch because a number of Zamindars had challenged the validity of the abolition legislation

as being *ultra vires* the Constitution. The Government was compelled to get the necessary modification in the Constitution which, in its turn, was again challenged. Finally, the Supreme Court has now ruled in favour of the constitutional change and the legal hitch, for once, is over. Already some of the State Governments, in anticipation of the Supreme Court's judgment, had formulated practical policies of land reforms after the zamindari abolition. Such policies are not, however, yet finalised and there is much scope for thinking and for improvement. The Congress is pledged to Zamindari abolition. Many of the States are, however, hesitant to introduce far-reaching tenancy reforms and shall like to wait until the coming General Elections are over.

Any examination of the problem of Zamindari abolition may to-day appear to be a merely a *post-mortem*. But in actual practice the question is very much alive. It has not yet become stale and hackneyed. The politically suspicious still doubts whether the whole show is not simply an election stunt or just a window dressing. From an academic and a practical point of view this is now only the beginning of the end of zamindari abolition. Far reaching social and economic changes must inevitably take place with the abolition of Zamindari. The all powerful Zamindars will have to be adopted. Many of them will need rehabilitation. Then the abolition of Zamindari is not an end in itself. The true justification for it will have to be proved through extensive land reforms and through the consequent improvement in the conditions of the peasantry. It will really be a pity if Paul is robbed but Peter still remains unpaid.

THE ORIGIN OF ZAMINDARI :—

It is difficult to trace the origin of the Zamindari system. In the days of the Mughals, the usual practice was that the state was the recognised owner of all land. But for the purpose of the collection of revenue, the Mughals appointed certain agents who used to get a fixed proportion usually 10% of the revenue collected from the actual tillers of the soil. In the course of time, the powers of these intermediaries grew up and they began to pass as the actual owners of the land of which they were the revenue collectors and they began to treat the real cultivators as their own tenants. This tendency gained force in the decaying stage of the Mughal empire in particular. But this is not all. Baden-Powell gives the following ways in which the system grew up:—

(i) Through the partition and sub-division of the estates of old *Rajas* or chiefs.

(ii) Through grants made by the ruling princes to their favourites, courtiers, family members and noblemen.

(iii) Through the usurpation of ownership by the revenue officials

(*iv*) More recently through the growth of revenue farmers. Under the law for the non-payment of revenue arrears, land and the tenancy rights could be auctioned and the purchasers of such rights became the Zamindars.

(*v*) Through conquest, occupation and colonisation.

(*vi*) Through the grant of land by the British in lieu of help during the Indian Mutiny or in lieu of military service.

(*vii*) Through the purchase of land or tenancy rights by the money-lenders.

Of all these factors the revenue farming perhaps contributed the most towards the growth of the system. Even before the advent of the British there were the Zamindars. But during this recent period their rights and their prestige underwent a great change. Originally, most of the Hindu chiefs were called Zamindars but those who did not hold any independent estate were called Taluqdars After the fall of the Mughals it appears that any one who had some real estate was called a Zamindar. The fact is that at the end of the 18th century most of the Zamindars were either merely revenue farmers or even dacoits who had no right to land except by robbery and blackmail. It is interesting to note what Mr. Mackenzie has to say in this connection. He states, "Some of the moderate sized estates were doubtless fairly created by the successive purchase of individual villages from their original owners or by the extension of cultivation by means of contract cultivators in districts having a large proportion of desert waste. But the origin of others was of a more questionable nature.... . . He appears to have engaged in a constant struggle for the extension of his Zamindari property, and as he generally had the hand of power and a prepondering influence with the *amil* (the local revenue official) the various villages, farms or *taluq* were joined too frequently by force or fraud into one Zamindari estate."

The Britishers when they were trying to consolidate their power in India found the zamindari system quite well developed. The Zamindars were powerful people having great influence over the population. It was natural that for furthering their political ends, the British should make use of them. Naturally, they were not only retained but they were encouraged and vested with greater power and prestige. Two distinct advantages were secured by this. In the first place, revenue administration was put on a sound footing and the Government was assured of a well-defined income specially as a result of the permanent settlement of Lord Cornwallis in Bengal. Secondly, "the divide and rule" policy could be given practical effect to. In the Zamindars the British discovered useful and powerful allies whose cooperation was not only useful but also enabled them to consolidate power quickly.

THE NEED FOR THE ABOLITION OF ZAMINDARI :—

The Zamindari system had its strong advocates in the past. Mr. R. C. Dutt was convinced that the permanent settlement had saved Bengal from famines for a period of over a hundred years. The system of zamindari had also reduced state expenditure on revenue collection. All these benefits might have been secured at the beginning but subsequently the system degenerated to the detriment of the mass of people and the provincial governments lost a large part of land revenue. The intermediary prospered both at the cost of the actual cultivators and the state. That the zamindars have been responsible to a certain extent in ensuring peace and security in the country-side has to be admitted. They have also often helped their peasantry through aids in times of need. But gradually the evils multiplied faster than the good coming out of the system. This was so because of absentee landlordism and because of the growing tyranny on the part of the zamindars. The following evils of the system are particularly note-worthy:—

(*i*) The system gives rise to the problem of unearned income to the zamindars. Such an income is incompatible with the progressive trends of thought of the modern age. The zamindars get a substantial income in return for doing nothing. They are, thus, social parasites whose presence must obviously cause bitterness, resentment and agitation. The grinding poverty of the masses accompanied by amassing of wealth by the Zamindars is really a great paradox. Even the capitalistic states have found it necessary to kill the parasites and to usurp a major portion of the unearned incomes. Death duties, inheritance taxes and succession levies are the important examples of it.

(*ii*) The system, far from bringing prosperity to cultivators, has destroyed the very foundation of agricultural prosperity. In addition to the zamindar who is an intermediary between the state and the cultivators, a number of intermediaries existing, on similar unearned income have grown up between the Zamindar and the actual tiller of the soil. Ultimately, the cultivator has lost all zeal for improvement. In the first place, exactions from him have been so great that he has no money to effect improvements. Secondly, even when he had the means to do so he refrained from doing so because he discovered that a major part of the income from such improvement was not coming to him. It went to the intermediaries. On their own part, the Zamindars have been almost completely indifferent or rather callous to such improvements.

(*iii*) The system has led to rent-rocketing. On account of the heavy pressure on land, there has been an accute competition among tenants for land. The Zamindar has not

hesitated to take advantage of it and, despite the tenancy legislation of the last hundred years or so, rents have gone sky-rocketting. This has increased the sufferings of the cultivator and his indebtedness.

(iv) It has been responsible for the decline of productivity in agriculture. Agricultural efficiency does not depend upon the technical perfection of implements and soil alone. The real incentive to improve is given by the social, economic and legal status of the cultivator. Under the zamindari system such incentive cannot exist and develop.

(v) The system has made the sources of revenue of the state governments highly inelastic. The functions of the state have been growing fastly and the state Governments in India are being entrusted with the administration of huge nation-building services. They have not infrequently been handicapped by the lack of elasticity of income arising because of fixed land revenue.

(vi) The tyrannies of the Zamindars, of late, have increased tremendously. Not only have they come to specialise in illegal exactions of all types but they have also tried such malpractices as forced labour or *begar*. They are at present the greatest single source of litigation in the rural areas. Thus, they are creating social and economic problems of great magnitude.

(vii) Lastly, evils have crept up inside the framework of the system itself. It is rarely a case that a zamindar is on the average a capable manager of his estate. He is much less a good administrator. A very large number of Zamindari and *taluqdari* estates have gone under the Court of Wards because of mismanagement, indebtedness, quarrels and litigations and such other things.

The fact is that the system has become obsolete and is showing signs of internal disintegration and decay. The old necessity for its retention has disappeared with the disappearance of the British rule. So long as the system continues it is difficult to bring about any improvement in the condition of the peasantry and the rural population. In many cases the zamindars are themselves the cultivators. They carry on *khudkasht* on vast tracts of land in the most uneconomic way possible. They have been a powerful check on the extension of the margin of cultivation and have of late impeded our agricultural production drive.

THE ABOLITION OF ZAMINDARI :—

The Case for Abolition.

The case for the abolition of zamindari can be argued from several considerations. In the first place there is the historical aspect. As Mr. Nanavati puts it "to ignore the

historical basis of the system is to overlook the fact that it was based upon the bankruptcy of millions of cultivators whose grievances and appeals now lie buried in the history." For such a long time the peasantry has suffered because of the tyranny of the state and society. Secondly, there is the argument of justice and equity. The Famine Commission of 1880 had recommended that effective legislation should be passed to protect the rights of the tenants in northern India and specially in Bengal. It had added further that "this opinion is primarily based upon the historical ground that they have a claim as a matter of strict justice to be replaced, as far as possible, in the position they have gradually lost." The system acts against the principle of equity imposing the greatest burden on the feeblest of shoulders.

Then there is the humanitarian argument. The brutalities and tyrannies imposed by this class on the tenants have been such as to shock the moral conscience of even an onlooker. An enquiry into the agrarian distress was conducted in Uttar Pradesh by the Provincial branch of the Indian National Congress. The report has described how even, as early as in 1931 insults and indignities were heaped upon the tenants by the zamindars. At one place describing a recent incident of the time the report proceeds. "The report before us reveals some reprehensible and abominable cases. The Pirpur incident in the Unao district must be fresh in the public mind. Ordinary regard for decency prevents us from giving a narrative of the inhuman atrocities committed at Pirpur."

Lastly, there is the political aspect of the problem. Democracy for its strength depends not upon classes but upon masses. It will be dangerous for any state to keep the majority of its people discontented and disgrunted. Such a position may lead to serious deterioration in the social and political atmosphere. At the same time the world now has enough experience that the greatest strength behind a government is the cooperation and backing of the mass of people.

The Decision to Abolish Zamindari.

The agitation to abolish the zamindari system, to free the peasantry of the oppression of the landlords and to secure for the peasant the necessary requisites of personal interest and initiative in respect of his cultivation has been agitating the mind of the people for a considerably long time. The Indian National Congress had declared that it stands for the abolition of all intermediary rights between the government and the actual tiller of the soil. When after the 1935 Constitutional reforms the Congress decided to participate in the election under the Provincial Autonomy Scheme

abolition of zamindari was made one of the main issues in the Congress election manifesto. After coming to power in the Provinces, attempts were made by the Congress Govts., to fulfil the pledge and progressive tenancy legislations were introduced. The war, however, upset the whole position. The sub-committee of the National Planning Committee reporting on the land policy has suggested that "the ownership in all forms of natural wealth must belong to and vest absolutely in the people of India collectively." It further recommends that "no intermediary parasites—Zamindars, *Taluqdars*, *Malguzars*, etc should be recognised. All rights belonging to these classes should be bought out and steps taken to consolidate all holdings into such standard units as can be most economically operated with a view to increasing the aggregate net returns and to minimize amount of human efforts involved in cultivating these. No sub-division of land by any incident of inheritance, mortgaging, alienation, or device of share-holding operation should be permitted." The Floud Commission 1938—40 and the Bengal Famine Enquiry Commission 1943 had also recommended the abolition of zamindari in general and the permanent settlement in particular. Thus, the question of abolition developed gradually through sheer necessity. It is now an accepted principle of policy by all the State Governments. Of course, at the same time, abolition with compensation has been recognised as the guiding motto.

WHAT NEXT ?

From both theoretical and a practical point of view the question what should be done when zamindari is abolished has a great importance. As has been previously stated abolition of zamindari is simply a means to increased agricultural and rural prosperity. The success of the measure will naturally depend upon the ability of the National Government to adopt ways and means and to enact tenancy legislation that can ensure the much needed reform and improvement in Indian agriculture. It will be wrong to suppose that the State Governments are neglecting the task. But the fact is that zamindari system is only one of the so many evils of our agriculture and unless they are also tackled simultaneously, it is possible that abolition of zamindari itself may do very little. One of these problems is the uneconomic size of the agricultural holdings. This must be recognised as the top problem. Two types of efforts will be needed to solve it. In the first place, efforts will have to be made to stop sub-division and fragmentation of holdings further and secondly, consolidation of existing holdings is essential if agricultural technique has to be improved.

Theoretically, there are at least four substitute systems for zamindari : collective farming, cooperative farming, state

ownership and peasant proprietorship. The first of these has achieved a marked success in the Soviet Union. But because of its socialistic saviour it is not likely to be accepted in India. Dr. Mukerji has smelled so much of the inherent sense of private property in the Indian peasant that he thinks it will be unacceptable. But we must remember that the system has been responsible in raising the average family earnings of a cultivator from 106·2 roubles to 348·1 roubles between 1932 and 1937 in Russia.

Cooperative farming may be recommended as a substitute but its success in the half century in the past casts great doubt upon its practical usefulness. It will do well to remember that cooperation in production has been rarely a success despite the encouraging results from Israel and Denmark. State ownership is not going to solve any problem. It means very little improvement upon the status of the cultivator and the cost of revenue collection will go up. Peasant proprietorship must perpetuate the conservativism, ignorance and the backwardness of the Indian cultivator despite the fact that it will bolster up the incentive and initiative of the cultivator through the sense of ownership of land under his plough.

ZAMINDARI ABOLITION AND LAND REFORMS IN ACTUAL PRACTICE :—

Zamindari Abolition in U. P. :

The U. P. Zamindari Abolition Bill was passed by the U. P. Legislative Assembly on 10th January 1951. The Council finally passed it on the 16th of January 1951. It has received the assent of the President of the Indian Republic as laid down under Article 31 of the Constitution. It was to have become law from the 26th January 1951 but the injunction which some of the Zamindars got against it prevented its implementation. Now, since the Supreme Court has ruled in favour of the state Government the Bill will shortly be made a law. The Congress party may like to make it a trump card at the time of election.

The main provisions of the Bill can be summarised as below :—

(*i*) With effect from the date to be notified later, "all the interests of the Intermediaries, including their interests in cultivated land, grove land, pathways, *abadi*, wastelands, forests, fisheries, ferries, public wells, tanks, water channels, *hats*, bazaars, mines and minerals and other sub-soil rights shall be vested in the Government free from all encumberances." They are, however, to continue in possession of their *sir*, *khudkasht*, groves, private wells, trees on *sir or khudkasht* land and the trees in the *abadi*.

(*ii*) The compensation to the Zamindars will be at the rate of 8 times the value of the net-assets acquired. Besides

this, the zamindars will be given rehabilitation grants ranging from 20 times the net assets to 2 times as the value of assets goes on mounting up. Compensation will be due from the date the estate is acquired and will bear $2\frac{1}{2}\%$ interest. The total amount of compensation to be paid is estimated at Rs. 140 crores.

(iii) To meet the need for the payment of compensation a Zamindari Abolition Fund has been created. An Act was passed in 1949 wherein it was provided that all tenants who paid into the Fund ten times the annual rent paid by them would become *bhumidars* i. e. would acquire permanent, heritable and transferable rights in their holdings. They will not be liable for ejectment and will be entitled to use the land for any purpose whatsoever. Of the total estimated Rs. 174 crores only Rs. 27 crores were collected into the Fund upto August 1950. The contribution to the Fund has now been increased to 11 times. A *bhumidar* has to pay only half his rent.

(iv) There will be two main classes of tenants, viz., *bhumidars* and *sirdars*. Those contributing the stipulated amount to the Fund and the existing Zamindars in respect of their *sir*, *khudkasht*, and grove land will become *bhumidars* with the rights stated above. All others will become *sirdar* entitled to *bhumidari* rights after paying to the Fund except tenants belonging to two minor classes of *asamis* and *adivasis*. *Asami* rights will be conferred upon tenants of grove lands and tenant's mortgagees and a few others. *Adivasis* will be the existing tenants of *sir* or sub-tenants. These two will have right to hold land for five years after which they can acquire *bhumidari* rights after paying 15 times the annual rent. *Sirdars* will have permanent and heritable rights in the holding but they can use their holdings only for agriculture, horticulture or animal husbandry.

(v) Present tenure holders can have any amount of land under their cultivation but in future such holdings will not exceed 50 acres and sub division will not be permitted if the part are reduced to less than $6\frac{1}{4}$ acres.

(vi) *Bhumidars* and *sirdars* will be jointly responsible for the payment of revenue and any one paying on behalf of others will be entitled to recovery. The Government is thinking of employing the *Gaon Sabhas* created under the *Gaon Hakumat* Act for the purpose. All common land, pastures and waste land will also vest in the *Gaon sabhas*.

The measures adopted, thus, are almost revolutionary in nature. The question of compensation payment is a bit ticklish. The Central Government has decided to give no help as an anti-inflationary measure. The payment by the tenants will enable the Government to pay part of the compensation in cash. The balance may be paid in bonds.

A new era of happiness is expected to start in the rural areas.

The Position in West Bengal.

A Land Revenue Commission often called the Floud Commission was appointed in the undivided Bengal in 1938 to examine the land revenue system of the Province. It recommended *inter alia* the introduction of the *ryotwari* system and the abolition of all intermediaries between the state and the actual cultivator. The Bengal Land Acquisition and Tenancy Bill was passed in 1947. The Bill recognises the principle of compensation payment and seeks to purchase rights only in agricultural land. It stipulates a minimum period of 10 years to put the scheme into practice. The following are the main provisions.—

(*i*) The Bill is intended "to eliminate all unproductive population who subsists on rental profits from land, to provide cultivating family with an economic holding which shall be compact, indivisible and non-transferable farming unit; to prevent transfer of agricultural land to any person other than a *bona fide* cultivator; to relieve pressure of population on agricultural land; to encourage adoption of cooperative methods of cultivation and to create facilities for mechanical appliances."

(*ii*) Compensation will be paid on the basis of net income after deducting revenue and collection charges. The Floud Commission recommends 8 to 15 times as compensation.

(*iii*) There will be only one class of tenants with rights of occupancy under the Government.

(*iv*) The maximum size of a holding is fixed at 60 bighas or 5 bighas for each member of a family whichever is greater. Sub-division and sub-letting are disallowed.

(*v*) The Bill aims at consolidation of holdings and cooperative farming.

Bihar

To Bihar belongs the honour of being the first of the Indian States to take practical steps in Zamindari abolition. The Bihar Land Reform Bill was passed in 1950. The following are the main provisions:—

(*i*) The rate of compensation is 20 times the net income upto Rs. 500 per annum. It is ultimately reduced to 3 times for incomes exceeding Rs. one lakh. Compensation is to be paid over a period of 40 years.

(*ii*) The Government will be the owner of the land in direct relation to the cultivator as in the case of *ryotwari* system.

(iii) The Government proposes to introduce a land system on the same lines as in Madras and Bombay.

Madras :

In Madras there are two areas, the Zamindari and the ryotwari areas. Two Bills, namely, the Estates (Reduction of Rent) Act, 1947 and the Estates (Abolition and Conversion into Ryotwari) Act, 1948 have been passed regarding the zamindari areas. The object of the two bills is the reduce the rents and acquire zamindari and *Inam* estates so as to put them under the *ryotwari* system, 2800 zamindari and 3500 *Inam* estates of the total area of 14 m. acres will be acquired at the cost of Rs. 12·5 crores. It works out at Rs. 9 per acre which is the lowest of all the States. The following are the main provisions of the Bill which have actually been implemented :—

(i) Managers under the direct control of the district collectors have been appointed for the estates.

(ii) Land has been handed over to the cultivators under *ryotwari pattas.*

(iii) Occupancy rights have been conferred on such tenants as have cultivated it for 5 years or more.

Bombay :

The Bombay Government has passed a bill called the Bombay Tenancy and Agricultural Lands Act, 1948 abolishing the system of Bhagdari and Nervudari tenure in the State with the following chief provisions :—

(i) The Law has created a class of protected tenants in addition to several other benefits that are eligible to permanent tenancy.

(ii) Restrictions have been imposed on the ejectment of tenants.

(iii) Tenants have been given the priority of claim for purchasing *abadi* land and the land under their cultivation.

(iv) Transfer of land to non-agriculturists has been prohibited.

(v) Steps have been taken to encourage cooperative farming and special concessions and help are to be given to such undertakings.

(vi) The Government has taken powers to take over such lands and estates of which the management is inefficient.

Madhya Pradesh :

The state has passed legislation for the abolition of *Malguzari* system of land tenure and for acquiring the rights of intermediaries. The rate of compensation is fixed at

10 times the net income. Smaller proprietors are, in addition, to get a rehabilitation grant.

Rajasthan :

The Rajasthan *Jagirdari* Abolition Bill 1951 has been drafted after considering the court rulings on abolition bills in the various states. The Bill has been sent to the States Ministry for approval. The Bill will provide to each of the 8500 jagirdars of the state 7 times his net annual income as compensation in 14 half-yearly instalments, the outstanding instalments carrying $2\frac{1}{2}\%$ interest till the whole amount is paid. Jagirdars with incomes below Rs. 10,000 will, in addition, get rehabilitation grants.

The Bill provides for the appointment of Jagir Commissioners and their assistants for the administration and collection of revenue. From the date of resumption tenants in the jagir areas will become *Khatedar* tenants. *Gair Khatedar* tenants and sub-tenants will have to apply to the *tehsildar* for the acquisition of tenancy rights. The jagirdars will also become *Khatedar* tenants in respect of their *khudkasht*. There is a provision for giving tenancy rights to non-cultivating jagirdars if they so wish.

Madhya Bharat :

The State Assembly has under consideration the Madhya Bharat Abolition of Jagirs Bill. The Bill lays down that from the date of resumption of *jagir* by Government all *khudkasht* land cultivated personally by a *jagirdar* or zamindar shall be deemed to be held by him as the "*pakka*" tenant thereof and shall be assessed at village rates. Every tenant of a *jagirdari* or zamindari including the "*shikmi*" shall be deemed to be a "*pakka*" tenant of the land cultivated personally by him.

Similarly, the States of Mysore; Orissa and Jammu and Kashmir have abolished landlordism and have introduced extensive agrarian reforms:

THE CONCLUSION :—

The abolition of zamindari is a necessary step towards the reorganisation and rehabilitation of the agricultural economy of the country. The lines of reforms laid down by the various State Governments have been briefly indicated above. There is no doubt that much social and economic good must come out of the proposed legislations. So far however, only the preliminary theoretical scheming has been done. The final results will justify the actual position.

It will, probably, not be out of place to mention that, in the proposed legislations, very little co-ordination as between different States has been maintained. The need of the hour is a uniform policy for the country as a whole. Nothing

will be more desirable than if similar tenancy laws are introduced in all the States. Of course, the geographical and economic changes may necessitate minor modifications here and there but the broad outlines must remain the same.

One more fact is important. The abolition of zamindari, if it is not accompanied by an improvement in the size of holdings, will achieve very little by way of agricultural prosperity. It is desirable to make experiments on the collectivist and co-operative lines in different parts of the country to devise a suitable system. Modern methods of cultivation under the existing state of affairs are impossible and without them agricultural prosperity will simply be an idle dream.

Suggestions for further reading :—

1. Abolition of Zamindari in U. P. : Charan Singh.
2. The Indian Rural Problems : Nanavati and Anjaria.
3. The Floud Commission Report, 1940.
4. The *Zamindari Abolition Acts of the Various States.*
5. Evolution of Indian Economy : K. K Sharma.
6. Wither Agriculture in India ? : Baljit Singh.

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THE PROBLEM OF INDIA'S EXPANDING POPULATION

Synopsis :—

1. Introductory—because of the presence of positive checks in operation India is said to be over-populated, but this is a wrong approach, problem of population acquired importance after 1943; Indian population in 1951 is 360 m., it is increasing at the rate of 1·3% per annum, the population has shorter life, more idleness and less efficiency.

2. Theories of Population—the Malthusian theory correlates population with food production, Optimum theory with total production, there are preventive checks, but no practical population policies are possible.

3. Is India Over—populated ?—the question is difficult to answer, Malthusian theory shows over population while optimum theory gives the opposite idea, in relation to present degree of utilisation of resources and from short-period practical considerations India is over populated.

4. Need to check the Growth of Population—it is needed to raise standard of living and efficiency, to ensure at least bare necessaries to future children.

5. Causes for the Rapid Growth of Population in India—they are: poverty, economic dependence of women, illiteracy, early marriages, social customs and lack of birth control education and advice.

6. How to check the Growth of Population ?—the problem is not easy ; there are five ways, higher standard of living, education, freedom to women, change of social customs and birth control, the last brings about qualitative deterioration, short-term measures are not available.

7. Control of Population in India—the Sharda Marriage Act was the first attempt ; the Planning Commission recognises the need for family planning but leaves it to social organisations, it advocates sterlisation and birth control information and services.

8. The Conclusion—the need for check is great, co-ordinating of effort is necessary, statutory regulation of minimum marriage age and propaganda through radio and films are the only short-period measures.

Introductory :—

The Nature and Origin of the Problem.

The need to control population in India has been emphasized for a considerably long time. The economist, the statesman and the man in the street have all combined together to raise a hue and cry to put a stop to population. The tendency to trace the economic distress in the country to our expanding population is almost universal. It is argued that the positive checks of nature postulated by Malthus are operating in India to remove the maladjustment between food supply and population. The recent famines, epidemics, riots, floods and earthquakes are said to be the ways devised by nature to put a stop to the tremendous growth of population in India. It must, however, be remembered that these troubles are neither new to India nor are they peculiar to her. Famines and such other calamities were not the less conspicuous in the past. Similarly, if not famines then at least other natural calamities affect the countries of the West in no small degree. It is an entirely different fact that through man-made devices people elsewhere have either controlled these forces of destructions or have abolished some of them. It will be a wrong approach to argue on the basis of them that our population is necessarily great.

There is, at the same time, no denying the fact that at the present time our population appears in size to be greater than what the present production, agricultural and industrial can support. This is indicated by the wide-spread scarcities of so many commodities and by the over-all shortage of food and such other means of subsistence. But as Seligman has remarked, "The problem of population is not one of mere size but of efficient production and equitable distribution." As things are producation in the country is not efficient and about the distribution of wealth the less said the better. There is a reasonable doubt that many of the natural checks operate not because of the population being great but because of the lock of productive effort and because of the fact that a small percentage of the population eats up the major portion of the country's production.

It was during the war, more particularly in 1943, that the Bengal Famine impressed the gravity of the food situation in the country. From that time it appears that increase in population has far out-stripped the increase in food production and also the increase in production as a whole. There has been a progressive decline in the standard of comforts and levels of consumption during the war and after. It is realised that if population continues to increase at the rate it has been rising of late—in fact it must rise faster in the post-war period—it will take us five long years despite our best

efforts to ensure even the already low pre-war levels of consumption.

The Quantitative and Qualitative Aspects of Population.

The population problem in India represents a quantitative and qualitative paradox. According to the Census of 1941 total population of India was 389 millions. As a result of the partition, the Indian Union, as at present constituted, comprises an area of 12,76,000 square miles. The population of the Indian Union estimated at the time of partition was 318 millions according to the Census of 1941. Since then according to the Census of 1951, the population stands at 360 millions. This gives as an increase of 13·2% in ten years time. If we eliminate the increase in population due to greater migration of population from Pakistan, the figure will still be nearly 13%. This population is not equally distributed over the different parts of the country and 86% of the total population lives in villages. The male population is higher than the female population. According to the Census of 1941, there were 935 females for every thousand males. The 1951 Census gives a still higher ratio for males.

As against this the average longevity is only 23 years in India. The infant mortality rate is the highest of all the civilized countries of the world. The working population is only 41% of the total population while it is 64% in England. Female working population is only 25% of their number in India. In addition, the population is weaker, more unhealthy and less efficient than in the countries of the West.

THE THEORIES OF POPULATION :—

The Malthusian Approach.

One of earliest of the systematic theories of population in economics is the Malthusian Theory of Population. Incidently, it is this theory which is rather too often applied to the case of India. Shorn of details the Malthusian theory states that the fundamental problem is the divergence between population and means of subsistence, mainly food. There are causes which lead to a greater increase in population than in the food supply in respect of a country. Malthusian theory, it must be understood, like all other classical theories in Economics is a long period theory. It is possible that for a short while food production might increase farther than population but given a sufficient time the population must overtake and overstep increase in food. This is a natural inherent tendency which Malthus wants us as the basis for any discussion of the population problem. Now, in strict consistency with this basic postulate, Malthus argues that if population can not be supported by the existing means of production it must die out. Nature tends to re-establish the equilibrium by increasing the death-rate. All types of natural calamities in the shape of famines,

wars, epidemics and the like of them pounce upon the population and reduce its size. When again the population emerges out of the horrors and increases the so-called positive checks of nature reappear and restore the equilibrium. Malthus by his analysis was led to the belief that the presence of the positive checks itself indicated over population.

Now Malthus discovers that the checks of Nature are rigorous. They impose too much of suffering on humanity. In his desire to search out means that would not be as harsh as the ways of Nature, Malthus discovers the preventive man-made checks. He comes to the conclusion that population is not only reduced by increased deaths it can also be reduced through decreased birth rate.

He, therefore, recommends such measures as late marriages, no-marriages, celibacy, moral restraint and birth control and contraceptive devices in the hope that they do not entail sufferings upon humanity like the positive checks.

It is not possible to disagree with Malthus regarding his advocacy of the preventive checks although one may find it necessary to denounce his analysis of the growth of population. The greater weakness of his theory lies in the fact that he co-relates population with food supply. Malthus was convinced that Laws of Diminishing Returns operate earlier and more forcefully in the case of agriculture and food production and hence, food supply must, in the long run, increase more slowly than labour or population. His contention that the presence of positive checks in operation necessarily indicates over population is also untenable. Such checks may operate because of the idleness of economic resources or maldistribution of national income or both.

The Optimum Theory :

The Optimum Theory was developed as a corrective to the Malthusian Theory. This theory corelates population to the total production of a country. In the final analysis, food can be procured from abroad in exchange for non-food domestic production. The theory adopts an objective criterion in discovering over-population and its extent. If as a result of the increase in population, the real *per capita* income in the country under study has increased the increase of population is desirable and beneficial. It means that a better utilisation of resources has been possible because of the increased population and manpower. The population in respect of which the real *per capita* income is the highest is the ideal or the optimum population and it is here that it must be stabilised by the use of the preventive checks of Malthus as also through more effective modern ways of education, recreation and increase in the standards of living of masses through better distribution of the national income. The optimum point, however, is not a fixed point. Just as the

volume of resources changes and just as the ways of exploiting the unused means are developed increased population may become desirable.

The theory is basically true. But unfortunately like the Malthusian theory it also fails to give us a population policy which is at once practical and useful. Theory and practical policy do not always go together. As the subsequent discussion will show this is all the more so in the case of population. The fact is that any experiment on human population is not possible. Then, so far as the reduction of population is concerned, measures devised to bring about quantitative reductions often cause undesirable qualitative changes. In addition, no population policy has been found to be infallible. Most of the policies create long-term changes while in the short period changes may occur to undo the work done. No drastic measures in respect of population are available to the civilised world.

IS INDIA OVER-POPULATED ?

The above question is controversial But the controversy is more academic than real. It is argued that looked from the Malthusian angle India definitely appears to be over-populated. The so-called positive checks are operating with full force. No body can deny the fact that the food supply is not inadequate for the population. Lakhs of people died as a direct result of famine in Bengal in 1943. Scarcities and local food famines still continue in parts of the country. The present deficit in regard to food is estimated at nearly 3 million tons. Internal disturbances, epidemics and the floods and draughts are the commonest of occurrences. Crores of rupees are being spent every year to import food from abroad and yet the population is being fed at the starvation scale of rations. All these are definitely signs of over-population.

On the other hand, those who look at the problem from the optimum standpoint put an entirely different picture before us. They contend, and quite reasonably too, that in India there is poverty in the midst of plenty. The people are starving yet vast tracts of cultivable waste are lying unreclaimed. There are a lot of things to be done but the people are idle and have no work to do. At the same time, there are wide disparities in the distribution of the existing national income. Two-thirds of the population enjoys barely one-third of the total national income. The Government has been rather callous in the past and social services were not developed. It is possible to control the epidemics, it is possible to check the floods and it is possible also to reduce the difficulties caused by occasional draughts. Thus, there is poverty not because the population has outstripped the limit that can be properly maintained by the resources of the

country but because the resources have not been utilised fully and in respect of the portion of them utilised no proper distribution has been made.

There is truth in both of the two contentions. It is really difficult to say whether the country is over-populated and if so to what extent. The mere size of the population or its increase per thousand per annum does not tell the whole story. Economists tell us that it is not the positive difference between the total number of births and total number of deaths including infant mortality that gives us any idea about the rate of increase of population. The true index is the net-reproduction rate which is calculated by the replacement rate of the females within the child-bearing age-groups. To take an example, if of the 1000 females born 800 reach the age group 15-45 (the child-bearing age) who give birth to 1200 females out of which again 900 reach the child-bearing age then this means that 800 females are replaced by 900 in the said group. Thus, 100 more females are added. The net production rate here is positive and comes to 100 for 800 which 12·5%. The example given above shows when we are to conclude that the population is tending to increase and what is the actual rate at which it so increases. Since in India the net-reproduction rate has not been officially calculated it is difficult to say what precisely is the rate of increase in population.

The above discussion has mainly theoretical and academic importance. From a practical point of view, the existing size of the population is unnecessarily large. In the short period it is this great size that is material for our food, agricultural and industrial policy and as such it is desirable to assume it as too much with the existing levels of production. Even if we take up the optimum theory in its short-period aspect we are bound to conclude that given a fixed degree of resources—utilisation an optimum can be fixed accordingly. One can safely say that at the present level of utilisation of resources the population is rather excessive.

5. The Need to Check the Growth of Population.

The need to check the population in India is really great. The per capita income in India is probably the lowest in the countries of the civilised world. Dr. Rao in 1931 estimated it at Rs. 65. In 1948 the *Eastern Economist* put it at Rs. 213 *i. e.* slightly more than 3 times that of 1931. If we estimate it in terms of goods and service there is actually a decline in 1948 for the prices in that year must be 5 to 6 times the prices in 1931. This means that the levels of economic prosperity have gone down. The most important reason for this fall is the tremendous rise in population which has increased nearly by 5 millions a year. There has been in general an increase in production both in respect of agri

population in the near future may very well upset our plans. It may make it impossible for us to ensure higher standards of living and efficiency to the people of country.

The usual methods of population control are the following :—

(*i*) Higher standards of living, (*ii*) more education both general and physiological, (*iii*) economic emancipation of women, (*iv*) change of social customs and (*v*) popularising and spreading the use of the birth control devices.

It can be said with respect to the first that it is difficult to decide whether low standard of living is the cause of increasing population or whether the reverse is the case. To think of improving materially the standard of living in India without controlling the population is almost crying for the moon. One is naturally confronted here with a vicions circle which is not so easy to break. Regarding education, one has to admit that it can only be a long term remedy. Intellectual development and consciousness acts upon the population only slowly. May be it takes two or three generations when positive results will begin to appear prominently. It is, however, not intended to mean that increase in education should not be effected for the purpose of that, All that is meant is that such a policy will produce results only after a sufficiently long time. The same is true of the economic emancipation of women. It is unthinkable to achieve it without increased female education and without effecting suitable changes in the social and economic structure of the country. As for the changes in the social customs so long as the so-called democratic system is continued it is very difficlt to modify them and then to enforce the modifications The fate of the Hindu Code Bill must convince all about the capacity of the government of the type we have to introduce far reaching social changes. The way in which the Sharda Marriage Act has been enforced also casts a serious reflection on the working of our administration and the intention and practice of our government.

Birth control then remains the only way out. Economists and more often the politicians and their camp followers have not hesitated to recommend it for use in India. In fact, the Government of India is thinking of giving effect to a scheme whereby expert advice on birth control and contraceptives would be made available to all those who ask for it. What is, however, often forgotten is that even the use of birth control devices pre-supposes the existence of a certain level of intelligence, education and enlightenment. Experience in Europe where such devices are quite common and well-known has shown that they are fashionable mostly in the higher grades of the society, the so called intellectual classes. This means that such devices must reduce the population in

the upper grades, whereas the inferior grades of population remain almost unaffected. In the course of time, this must bring about an increase in the percentage or proportion of the lower grade people in the population. Such devices are also often costly and the sentiment not infrequently acts against them. Population can only be persuaded to adopt them. It can not be forced. The degree of success will, therefore, be uncertain. Then these are also long-period devices and do not act immediately to arrest the growth of population.

Thus, we have to conclude that short period measures to control the expansion of population are difficult to devise.

7. CONTROL OF POPULATION IN INDIA.

Government efforts to control population in India have been conspicuous by their absence. Despite the fact that the need for such an approach has been felt for a considerably long time, no positive measures have been taken in the direction. The Sharda Marriage Act was the first attempt of this kind. The Act prescribes a minimum age limit of 14 years for girls and 18 years for boys for marriage. The Act prescribes penalty in the shape of fines and imprisonment for the parents or guardians of the bride and bridegroom violating the provision. The Act has, however, a limited scope and does not extend to non-Hindus. In actual practice, the Act, has never been enforced with the vigour and zeal and in the spirit that it deserves. Infringements have been common and very little has been in fact achieved.

In the post-war period pronouncements regarding the need to check the growth of population have been more frequent. Mr. Ardeshir Dalal, one time member for Planning and Development Government of India, remarked, in 1945 that a policy of birth control to raise India's economic production and national income was urgently needed. Mrs. Sanger has similarly advocated that "An attempt to raise the standard of living and the *per capita* income of the people of India without corresponding efforts to control their fertility would be a complete failure." Of late Shrimati Rajkumari Amrit Kaur, India's Health Minister, has become a great champion of birth control clinics and propaganda agencies.

Population Planning in India's Five Years Plan.

The Planning Commission has recognized the obvious fact that with the better control of epidemics and diseases population in India must increase still faster. But the Commission has postulated that the state can play only a limited role in respect of family planning and birth control. Following the recommendations of its sub-committee on Population and Family Planning, the Commission recommends that :

(i) The State should provide facilities for sterlisation r giving advice on contraception on. medical grounds ;

(ii) Such help and advice should not be withheld from thers who seek and need it on social and economic round , and

(iii) Research and information centres should be organised by the state through financial assistance and otherwise.

To carry on the propaganda on family planning the Commission has left the job to social and cultural organisations like the Sarvodaya and the Rama Krishna Mission. Financial assistance is recommended to such organisations and special efforts are to be made in the rural areas.

THE CONCLUSION :—

It is clear that the need for retarding the rate of population expansion and of reducing the size of the existing population is great in India. But as we have noticed any short-cut method for the purpose is not available. In recommending any measures one must inevitably take into account the peculiarities of India's social and economic structure more particularly the religious, social and cultural susceptibility of the people and the intellectual and material levels of development. There is further need to co ordinate long-term and short-term measures. It is possible to devise at least some measures which may produce some results in a comparatively shorter space of time Above all, the greatest need of the hour is increased production through properly co-ordinated and planned efforts. If we succeed in our production drive we shall, to a considerable extent, eventually succeed also in crying a halt to our population. Intensive efforts should be made in the direction of education specially in the rural areas. The National Government is in a position to command the cooperation of the vast majority of the people. If it gives up its paper-scheme making attitude it may not be very difficult to enlighten and convince the people regarding the necessity of limiting the size of the families.

It will probably not be out of place to suggest that the following measures should be given effect to immediately as they are likely to produce results in a comparatively shorter period. Of course they must be supplemented by long-period policies which ought to be comprehensive. Probably the most useful short period measure will be a statutory regulation of minimum age limit for marriage for both boys and girls irrespective of caste or religion. Greater use should be made of the media of radio and films for educating the public opinion in family planning. Both of them are gaining in popularity rapidly and the Government have sufficient control

over them. Research and information centres should be set up all over the country and every hospital must run a special service for information and advice on contraceptives.

Suggestions for further reading :—

1. India's Teeming Millions : Gyan Chand.
2. The Census Reports.
3. Population Problem of India : P. K. Wattal.
4. Report on Population : National Planning Committee Series.
5. Pressure of Population and Economic Efficiency in India : D. Ghosh.
6. Economic Analysis and Policy : Meade.
7. The Draft Five Year Plan, 1951.

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THE PLACE OF COOPERATION IN INDIA'S ECONOMIC DEVELOPMENT

Synopsis :—

1. Introductory—cooperation means the association of individuals to secure a common economic end by honest means ; it originated from Robert Owen in the form of reforming the economic condition of the working classes, it has generally been successful in consumption and distribution but not in the case of production.

2. Need for Cooperation in India—India is an agricultural country ; cooperation is needed to solve the problems of rural indebtedness, fragmentation of holdings, uneconomic size of holdings and marketing ; in the urban areas it will be of great help to artisans and lower middle classes.

3. History of the Cooperative Movement in India—*the Cooperative Societies Act* 1904 and 1912 ; after 1919 Cooperation became a provincial subject ; there was a great progress before 1930, the Depression gave a set-back, the World War II again accelerated the growth.

4. The Existing Structure of Cooperative Organisation in India—the Provincial Banks, the Central Banks and Unions and the Primary Societies, rural est urban and credit and non-credit ; funds are raised by of share capital, deposits, borrowings and reserve funds.

5. Recent Trends in the Cooperative Movement—the case of agricultural production as a part of refugee rehabilitation and then also in the sphere of consumer's cooperatives in respect of controlled commodities.

6. Defects of the Movement—it is not widespread ; it deals mostly with credit, paucity of funds, improper accounting, malpractices, lack of proper management and too hasty development.

7. How can We Improve the Situation ?—need for consolidation of the work already done and for the expansion of the movement, the role of the Reserve Bank , the Land Mortgage Banks ; the need for the training of the staff.

8. The Conclusion—there is great need for cooperation specially in agriculture, non-official cooperation must be utilised and cooperative staff should be trained like village *panchayat* officers ; people must be made to cooperate through economic necessity.

Introductory :—

Meaning of Co-operation.

The commonplace meaning of the term co-operation is working together and working jointly. In economics this "working together" has a definite significance. The most characteristic feature of the capitalistic mode of production is competition which in the long run is injurious to all engaged in it. Competition also often causes social and political repercussions. Attempts are often made to eliminate competition. The importance of co-operation in it cannot be under-estimated. But, through convention, the term co-operation has acquired more noble meanings in economic theory. It is the working together of the economically weak to safe-guard or further their common interests. According to Strickland, "It indicates the association of individuals to secure a common economic end by honest means ....The basis of association is (i) voluntary, and (ii) democratic; voluntary, because those only enter it who feel the economic need at which it aims; and democratic, because those who feel a real need will be men of modest status...... ....." Thus, it is an associative effort at the satisfaction of common needs and at the removal of common difficulties through honest mutual help on the principle "each for all and all for each." In one way, it is a substitute for the revolutionary socialism intended to secure the object of socialism without regimentation and in a peaceful evolutionary manner.

ORIGIN AND ACHIEVEMENTS :—

Robert Owen, a British socialist reformer is credited as being the originator of co-operation. Owen was able to make a close study of the evil effects of the development of capitalism on the conditions of the working classes. He noticed that there was a progressive decline of the economic condition of the factory workers. In his analysis of the causes of this deterioration of the worker's well-being, he came to the conclusion that it was the internal competition between the ranks of the working people which increased their miseries. It was, therefore, desirable to limit this competition. Furthermore, Owen discovered that the fundamental evils of capitalism sprang from the fact that the worker was not the owner and that he, therefore, had no control over production, over employment and over the conditions of work. Now, individually, no worker was strong enough financially to run a large-scale business enterprise. Truly speaking, the individual worker lacked even the necessary means of subsistence. Owen, naturally, came to the conclusion that if the workers were to combine and co-operate together to run

Even in the urban areas cooperation is likely to be of great use not only for general mass of the people but also from the point of view of national prosperity. The usefulness of the cottage and small-scale industries in the present industrial set-up of the country needs no emphasis and at the same time the best way to organise and develop them can be through cooperative enterprise. This will not only lead to the pooling up of otherwise meagre resources for real productive use but will also tend to remove the traditional shyness of the Indian capital. What is more, cooperative enterprise will retard development of vested interests and will, thus, create healthier trends in the national economy. The general bulk of the middle classes specially of the lower strata must inevitably benefit from the growth of consumer's cooperatives, cooperative credit societies and the cooperative better living societies. It will be wrong to suppose that such cooperation will lead to the displacement of existing business and the employment therein. The fact is that the rapid growth of cooperatives must itself create new avenues of employment of a type better than within the private business. At the same time such cooperatives are not expected to take up all types of work. Probably, the most useful fields of operation for them will be business in respect of commodities where the purity of the product is a great consideration as in the case of milk, butter *ghee* etc.

Again, it is a well known fact that a vast majority of our factory labourers like their rural counter-parts are heavily indebted and exist on the mercy of the money-lenders. For them cooperation will be of great help. It will not only secure cheaper and better loans but will, in addition, awaken their sense of mutual help and will generate fellow feeling. Similarly, the urban artisan and the small producer will be put on a better footing financially, intellectually and technically. It will, probably, be no exaggeration to state that there is a possibility of industrial reorientation in India through a net-work of cooperatives of all types.

History of the Cooperative Movement in India

The cooperative movement in India grew as a result of the inspiration from Sir Frederick Nicholson's report to the Government of Madras in 1882. He had recommended the establishment of Land and Agricultural Banks on the model of the Raiffeisen Societies of Germany. The real beginnings were, however, made with the passing of the Cooperative Societies Act of 1904. But this Act made provision for cooperative credit societies only. There were two types of such societies contemplated the rural and the urban. A society was rural if at least 80% of its members were agriculturists, otherwise it was urban. In respect of rural societies the principle was one of unlimited liability whereas in the case of urban

societies the members were free to choose limited or unlimited liability. A Registrar of cooperatives was appointed in every province and provision was made for inspection and auditing. Certain concessions in the form of exemption from income-tax, stamp duties etc. were also provided to give encouragement. The Act, however, lacked in certain important directions. In the first place it gave protection to only credit societies whereas non credit societies which were growing rapidly were not given any encouragement. Secondly, the Act aimed at the establishment of only the primary socities and did not provide for the development and organisaton of central societies to supervise over the primary societies. Lastly, it became apparent that the distinction between rural and urban societies was artificial It, therfore, become necessary to modify the Act. This was done through the amending Cooperative Societies Act, 1912.

Under this Act recognition was given to all forms of cooperative societies, credit and non-credit. The distinction between rural and urban societies was removed. In its place there were to be limited and unlimited liability societies. Unlimited liability was necessary only when the members were mostly agriculturists. Statutory recognition was also granted to three types of Central Organisations, viz., the Unions, the Central Banks and the Provincial Banks.

After the Constitutional Reforms of 1919, cooperation became a provincial subject and the various provincial governments began to make laws of their own. Non-official interest was also aroused in the movement and propaganda was made full use of. In addition, the Royal Commission on Agriculture and the Central and Provincial Banking Enquiry Committees made various important suggestions for improvement. The number of societies increased from 2,800 in 1920 to 94,000 in 1930 and the working capital rose from Rs. 15 crores to Rs. 74 crores during the same period. The movement received a great set-back during the economic depression which set in 1929 This was mainly due to the tremendous fall in the prices of agricultural commodities. During the period 1930–40 the number of societies in creased from 94,000 to 1,37,000 while the working capital rose from Rs 74 crores to Rs. 107. This period was characterised by consolidation rather than expansion and gradually there was an increase in the official control. The period, however, witnessed the establishment of the Reserve Bank of India. This was a major event as the Bank has a special department called the Agricultural Credit Department devoted to the study and solution of the problems of agricultural credit in the country. The Bank has already published two important reports on the problem besides several reviews on cooperation. Similarly, the provincial autonomy resulting in the

establishment of popular ministries in the provinces gav much encouragement to the movement.

The last Great War which led to a rise of agricultural prices went a great way in improving the economic position of the cooperative societies. The number, the capital and the functions of the societies expanded fastly. Members began to pay back their debts and the deposits of the societies registered increase but the fresh demand for loans fell down. The most notable feature of the war and the post-war period is the development of consumer's cooperative stores and the cooperative marketing societies. The number of societies rose from 1,37,000 to 1,72,000 between 1939-40 and 1945-46 while the working capital rose from Rs. 107 crores to Rs. 164 crores.

THE EXISTING STRUCTURE OF COOPERATIVE ORGANISATION IN INDIA.

At the top of the cooperative organisation is the Provincial cooperative Bank of a Province. It acts as a clearing house and a balancing agency, for it transfers surplus funds of one locality to another. It is also through it that the Reserve Bank provides financial assistance to agriculture It also coordinates the working of cooperative central and Urban banks and advises cooperative societies on the efficient working of their business. The constitution of such a bank, however, differs from province to province. In 1947—48 there were 11 Provincial Banks in India with total working capital of Rs. 24 crores.

Just below the Provincial Bank we find the central Unions and central Cooperative Banks to which are affiliated the Primary Societies existing within the definite area under their control. The Central Banks are the real financiers of the affiliated societies, They may be of the pure or of the mixed type. The pure type of Central Bank confines its membership to cooperative societies alone and is in form, a mere federation of societies, while the mixed type includes both individuals and societies in its membership. The capital for these Banks comes from shares and deposits and it may be supplemented by borrowings from the Provincial Banks.

Below the Central Banks or the Unions there are the primary societies which may be both agricultural and non-agricultural. Each one of these is further divisible between credit and non-credit societies. In agricultural societies in India, credit societies are in the over-whelming majority. The non credit societies are often cooperative marketing societies, better farming societies or consolidation of holdings societies. Some of the societies are multi-purpose in nature and perform a variety of functions at the same time.

Non-Agricultural Cooperative Societies are generally of the Schulze Delitzch Societies of Germany type. They work like the joint-stock company and often adopt the principle of limited liability. Their capital comes through the sale of shares and through deposits from the members and the outsiders. Dividends are paid to the share-holders and loans are granted on the basis of collective security wherein along with the personal guarantee of the borrowing member, guarantee from two more members is required.

The Financial Structure :

The funds of an agricultural credit society are raised from entrance fees, share capital, deposits or loans from non-members, loans from the central and provincial banks, loans from the Government and the reserve fund. Deposits and loans are the most important sources and, in general, loans from the central and provincial banks comprise the bulk of the working capital of a society. Such societies often pay low dividends and appoint honorary staff and thus build up their reserve funds. The usual practice is to use this reserve fund as working capital. At the end of June, 1947, total working capital of such societies was Rs. 31 crores of which 19 crores *i. e.* 58% was owned capital. Estimates are that of late this proportion of the owned capital has further increased.

The Act of 1912 provided for the establishment of banks in the urban areas on the cooperative principle. Such banks could be registered with the Registrar of Cooperatives if they were formed with the sole object of financing the societies. Similarly, all the major states now have apex banks or the provincial Cooperative Banks. Such banks accept doposits from the cooperative societies as also from the general public and, while dealing mainly with the cooperatives, they also have dealings in current account with the public.

RECENT TRENDS IM THE COOPERATIVE MOVEMENT :—

The post-war period has witnessed the growth of new tendencies and new ideologies in cooperation. The most notable feature after Independence has been the keen interest shown in the movement by the Central and State Governments. Conferences of the Registars of the Cooperative societies have been held from time to time and many new programmes and coordination schemes have been evolved. The Suraiya Committee, in fact, recommended the planning of the whole of the national economy on the principle of cooperation. The Governments have had occasions to put the cooperative principle on trial in the rehabilitation of displaced persons. Where refugees have been settled on newly reclaimed land cooperative farming has been adopted as a matter of principle. The same is true of the new cottage

industries started through government aid to provide employment to the refugees. It is too early to conjecture as to how far these experiments have succeeded but they have definitely been bold steps and will, in all probability, be followed in almost every case of the development of new colonies.

Some of the State Governments have, in addition, discovered good opportunity for the development of consumer's cooperatives for the distribution of controlled commodities. In the Uttar Pradesh such societies are in the exclusive control of grain and sugar distribution and in the matter of cloth they occupy an important position. The success of Cooperation in agriculture and agricultural industries of the West notably Sweden, Denmark, the Netherlands and Israel has given good support to experiments in Indian agriculture also. It is to be expected that with the abolition of Zamindari and after reforms in respect of land tenure, it will be much easier to adopt cooperation in agriculture in India. The formation of self-governing village democracies of the type of *gaon panchayats* in U. P. will do a lot towards the popularising of the movement and towards the training of management. The modern stress is, however, on the formation of multi-purpose societies in the rural areas. In the urban areas, on the other hand, consumer's cooperation is gaining greater popularity.

THE MAIN DEFECTS OF THE MOVEMENT IN INDIA :—

In its actual working, the cooperative movement has exhibited certain defects which to a great extent have not led to a proper and wide-spread development of the movement. It has touched only a portion of the total population so far amounting only to 10.6%. Then there have been certain special spheres for its development and it has not assumed a universal character. Other defects are as follows :—

(*i*) The movement has so far dealt principally with the problem of credit. Nearly 90% of the societies are mere credit organisations. When we notice the development of cooperation in agricultural production in Canada, Australia and the countries of Europe we can not be very enthusiastic about its achievements in India. There is no doubt that the modern tendency is in other directions also and even in the sphere of agriculture, irrigation, consolidation of holdings and cottage industries societies are there. But their number is too small to produce any tangible results.

(*ii*) Even on the credit side the record is not very glorious. The total working capital is barely 3.6% of the total indebtedness estimated at about Rs. 900 crores. Again, they do not provide long-term loans and often manage such loans in the most inefficient manner.

(*iii*) The accounts are not properly maintained. The supervisory staff is often inexperienced and incompetent to do its job.

(*iv*) A number of mal-practices in the form cf *benami* transactions and defalcations are prevalent with the result that overdues and bad debts are constantly on the increase.

(*v*) There is a dearth of proper management. This is so specially in the villages where men of requisite qualification, experience and integrity of character are difficult to find. The general bulk of members is often ignorant and indifferent.

(*vi*) Since the movement has been inaugurated by the Government, it has often failed to evoke proper response from the public. The cooperative spirit has not thus developed.

(*vii*) There is a notorious shortage of funds in the societies.

(*viii*) The organisation of the societies has often been hasty and, therefore, unsound.

HOW CAN WE IMPROVE THE SITUATION ?

The above defects call for early remedies. It is apparent that the need for improvement exists in two directions. In the first place, the organisation, finances and the internal management of the existing societies must be improved. This also means that better coordination must be secured as between various societies. Secondly, the scope of cooperation must be widened so as to include a multiplicity of functions and economic activities within the scope of the movement. There is a vast field for cooperative business specially in agriculture and its allied industry. Efforts should be made to bring in more and more people within the fold of the movement. It must, however, be remembered that in this case persuasion must be the policy. Propaganda should be so directed and the non-official opinion should be so mobilised that the initiative should come from the people rather than from the Government. There is a lurking suspicion in the minds of the people specially in the rural areas against everything that the Government does which the National Government has not succeeded in removing.

The Recommendations of the various Committees:

Several Committees has reviewed the working of the cooperative movement and have made taeir own suggestions. A early as in 1914, the Maclogan Committee had emphasized the necessity of a reserve fund. It had also emphasized the honesty of the members and had recommended the stoppage of speculative loans by the cooperatives. Its most important recommendation related to the establishment of an All-India Cooperative Bank.

The Statutory Report of the Agricultural Credit Department of the Reserve Bank also emphasized the need for increase in the reserve fund and recommended restrictions on loans for purely productive purposes. The report also advocated the organisation of credit societies on a multi-purpose basis and made useful suggestions for co-ordination of the working and the training of the personnel. Needless to say that the defects noted by the Reserve Bank still continue. The only improvement has been that the need for an All India Cooperative Bank has been met to some extent by the All-India Cooperative Institutes Association and the Indian Provincial Cooperative Bank's Association. Of late, the internationalisation of the movement has started with the organisation of the International Cooperator's Day.

Reserve Bank and the Cooperative Movement :

The Reserve Bank of India is an important agency for financing seasonal agricultural operations. This is done through the purchase, sale and rediscounting of agricultural bills and such other papers. The Bank also advances loans to the Provincial Cooperative Banks against the securtiy of Government paper or approved debenture for a period not exceeding 90 days. It also offers expert advice and conducts enquiries. But the Bank can only help the provincial cooperative banks to tide over temporary shortage of funds. To be entitled to help such banks must submit periodical statements to the Reserve Bank and should keep minimum cash balances of $2\frac{1}{2}$% with the Reserve Bank. It is, therefore, clear that long-term finance can not be provided by the Reserve Bank. The fact remains that despite the $1\frac{1}{2}$% rebate granted to agricultural bills, the services of the Reserve Bank have not been fully utilised.

The Land Mortgage Bank :

The Land Mortgage Banks are an important source of long-term finance to agriculture. Such loans may be needed by the agriculturists for permanent improvement on land and for the liquidation of ancestral debts of long standing. These banks have the necessary technical machinery for determining the titles and valuations of land. Their funds are raised from share capital, deposits, debentures and reseve funds. They are also given interest-free balances by the Central Bank or Government of the country. The establishment of such banks was started rather late in 1929 when the Central Land Mortgage Bank was set up in Madras. In 1944-45 India had 289 such banks with a total working capital of Rs. 7·8 crores.

These banks in India have, however, been granting loans mostly for the redemption of old debts. Very few loans have been given for improvement of land and agriculture. The

percentage of the former comes to about 94. Lack of coordination between the Land Mortgage Banks and the Agricultural Department of the Government has been one of the principal reasons for it. It is, of course, true that the State Governments have extended help to them by guaranteeing debentures issued by them and by declaring such debentures as "trustee securities." Subsidies have also been granted to them. The recommendation of the Central Banking Enquiry Committee which emphasized the need for the establishment of Provincial Land Mortgage Coorporation to co-ordinate and control the working of Primary and District Banks deserves special consideration. The Banks should also be provided with expert advice on technical aspects of land valuation and they should be encouraged to advance more loans for productive purposes.

A very important step in the right direction will be the training of staff for the agricultural co-operatives. This should better be undertaken by the State Governments on the model of training of the village *panchayat* officers.

THE CONCLUSION :—

The importance and usefulness of co-operative endeavour in a country like India where the economy is predominantly agricultural and where tremendous problems of uneconomic units of cultivation, rural indebtedness and fragmentation of holdings exist can not be exaggerated. The villager, must be awakened to the necessity of self-help through co-operation. This is needed not only to improve the economic lot of the villager but this is also needed to generate healthy feelings of brotherhood in the population. Co-operation is, probably, the only way of extricating the villager from the clutches of greedy and unscruplous money-lenders. It is also an important means of removing a large number of defects of our agricultural industry. Use of scientific methods is possible only when agricultural holdings are much bigger and when adequate provision for capital exists. In fact, co-operation is supposed to have the advantages of large-scale production along with the retention of individual initiative and interest.

The existing defects in the movement can best be removed through non-official co-operation for the success of the movement. The Co-operative Officers must realise that their success lies more in persuasion and in enlisting the support of honest public men in the movement. Administrative interference should be limited only to the extent of checking the development of unhealthy tendencies.

With the inauguration of village democracies, adult franchise and greater literacy, it is to be hoped that better talent will be available in the country. We should try to put co-operation in agricultural production on the model of

Israel and Denmark. In the beginning, this may be done on the experimental scale. If it succeeds, the cultivators must be taught to co-operate through economic necessity. This can be done only when co-operatives are made to work efficiently so as to compete favourably with the individual producers.

Suggestions for further reading :—

1. Co-operation at Home and Abroad : Kay.
2. Co-operative Movement in India : H. L. Kaji.
3. Reviews of the Co-operative Movement in India.
4. The Statutory Report (1937) of the Reserve Bank of India.
5. Report of the Co-operative Planning Committee.
6. Evolution of Indian Economy : K. K. Sharma.
7. A First Course of Indian Economics : B. Bhattacharya.

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COMMERCIAL AND TECHNICAL EDUCATION IN INDIA

Synopsis :—

1. Introductory—the most urgent problem in India is the problem of accelerating production, lack of technical and commercial education is a serious handicap in this direction, existing education is liberal and theoretical.

2. Development of Technical Education—Victoria Jubilee Technical Institute was established in 1877, there was a Conference in 1901, the Industrial Commission of 1916-18 made important recommendations, from 1919 education became a provincial subject, the Wood-Abbot Committee Report of 1936, the war-time training schemes, the Sargent Report and the University Education Commission.

3. The Present Position in India—the facts about professional and technical education and vocational training; there are a number of agencies for industrial research and public health and more are contemplated; the position in respect of technical training and engineering, commercial and managerial education.

4. Causes for the Slow Development in India—necessity is the mother of invention, the apathy of the foreign government, lack of industrialisation, control by the Provinces, lack of scope for employment, managing agency and hereditary management, employment of Europeans and the poverty of the people.

5. Programmes for the Future—the Colombo Plan provides for co-operative technical assistance and assesses Indian requirements, the Government has also put into practice a new five-year plan.

6. The Conclusion—we must develop training facilities of our own, all foreign owned industries and business houses must be made to employ and train Indians, this should be a condition for the import of foreign capital in future.

Introductory :—

India has several problems to solve on the economic and social front. But of all the problems poverty and ignorance demand the most immediate and the most careful attention.

A government that fails in its primary duty of ensuring at least a minimum standard of necessaries and comforts and of enlightenment for its people does not really deserve to exist. It is, of course, true that poverty and ignorance are both intimately connected and have both to be tackled simultaneously. Independence, unless it secures a certain degree of material well-being for the people, will not come to acquire real significance. People cannot for all times be fed upon high sounding principles and empty promises. The demons of poverty and ignorance must be killed and buried far beneath the ground.

The most immediate problem facing the country is the problem of accelerating production both agricultural and industrial. There is also the need side by side of evolving a system of distribution wherein a few do not thrive and prosper at the cost of many. Now, innumerable are the impediments in the way of the expansion of production in India. The National Government, after years of experience and labour, has come to realise the basic fact that production is not increasing at the rate required by the conditions inside the country. The price incentive has probably exhausted its driving power and despite the constantly rising price level production has not been making much of a headway. The Government has, of late, announced a Five-Year Plan of economic development and it is expected that within the course of the next five years we shall be able to expand production to the extent that the increased population will be assured of at least the pre-war levels of consumption.

One of the most important factor which is responsible for the lack of increase in production is the dearth of managerial, skill, technicians and skilled workers. That this is not the only cause for the slow increase of production must, of course, be admitted but this in combination with dearth of raw materials and capital goods has aggrevated the whole situation. At the present time the position is that, in addition to the import of essential raw materials, machinery and food, we have also got to import technicians, mechanics, factory managers, technical experts, engineers, etc. This weakens our foreign exchange position considerably. At the same time, on account of the world-wide demand for them, such personnel is not easy to obtain at reasonable terms and of the right type. It is in the fitness of things that we should not depend on foreign technicians and managerial skill for ever. For this purpose we have got to train the native youth and talents. This requires the establishment of commercial and technical institutes and training centres on a large scale. It is certain that for many years more it may not be possible for us to provide for the higher type of technical and commercial education in the country and for this the existing practice of

utilising the services of foreign institutes must be continued. But, eventually, we must develop training institutes and centres of our own.

The existing secondary and university education is of the liberal type. It teaches a young man nearly everything but the way of earning a decent and honourable living. Vocational training is almost non-existent. Even after the finishing of his education, a youngman finds himself untrained and unprepared far any walk of life. It is natural that he often feels disappointed of his education acquired after so much expenditure of money, time and energy. The scramble for government services and for the clerical and other job is the result of this lack of vocational and professional education. Even where the education is, so to speak, technical or professional it has a pronounced theoretical bias and does not enable the recipient of such education to face the practical problems of life. Little wonder, therefore, that there is confusion and agitation in the educated mind and there is the educated unemployment despite the shockingly low percentage of literacy. In the interest of national progress and national solidarity, this state of offairs must be ended in the shortest of time. Wide-spread technical and commercial education with a greater emphasis upon the practical aspect is, therefore, necessary.

Side by side, progressive Indianisation of the various commercial and technical services must be the policy. This will enable Indians to acquire practical experience which may be made available to the trainees at the institutes by the technical experts. Too much dependence upon foreigners in any economic matter has its political and economic repercussions and should, as far as possible, be avoided.

DEVELOPMENT OF COMMERCIAL AND TECHNICAL EDUCATION.

When considered in its historical retrospect, the beginnings of industrial education were made in India with the establishment of the Victoria Jubilee Technical Institute in 1877 in Bombay. For a considerably long time this continued to be the only institution of its kind. The Institute was a private effort to cater for the needs of mill industry. In 1901, the educational experts of the country met at Simla and devised a scheme of technical scholarship, by the Government of India for study abroad. At the same time, the teaching of science and scientific subjects made some progress in the Indian Universities. Not much progress was, however, achieved in the sphere of commercial and technical education.

The Industrial Commission of 1916-18 emphasized the need for the expansion of such education and training in the

country and suggested a number of measures to meet the situation. Of the numerous recommendations of the Commission the most important ones were the following :—

(i) The local and provincial government were advised to introduce industrial bias in the primary education.

(ii) Government subsidies were recommended for such employers as provided facilities for the industrial education of their employees.

(iii) The Department of Industries was advised to establish under its own control industrial schools for cottage industry workers.

(iv) More scholarships were recommended for higher training abroad.

(v) The Commission also suggested the setting up of two Imperial Colleges for the purpose.

From 1919 onwards, education became a provincial subject and vocational training and technical and commercial education came under the control of Provincial Departments of Industries. Financial difficulties made it almost impossible for the provinces to develop education rapidly. At the same time, the non-vocational bias of the college and university education continued as before.

In November 1936, the Government of India on the advice of the Central Advisory Board of Education invited Messrs. A. Abbot, formerly Chief Inspector of Technical Schools, England and H. S. Wood, Director of Intelligence, Board of Education, England for the purpose of evolving a scheme for planning educational reorganisation. They submitted a report on educational reconstruction which is famous as the "Wood-Abbot Report". The Report recommended the expansion of vocational education but they were of the opinion that such education should not be too specialized and should be coordinated with the development of industry. At the same time the Report emphasized the need of survey to determine the needs of industry and commerce by the Provincial Governments. This must facilitate the determination of the type and extent of vocational training. Cooperation between industry and Commerce on the one hand and educational organisations on the other was recommended as a basic feature of vocational education. It was observed by the authors of the Report that there was a great dearth of the supervisory grades of workers in the country—a fact which was a considerable handicap to industrial expansion, concentration of attention on their education was, therefore, strongly recommended.

With the start of War, great dearth of scientific and technical manpower was felt, for the war created tremendous

demand for such manpower. In 1940 a war-time Technical Training Scheme was formulated by the Government of India. Under the scheme over 1,00,000 persons were trained in over 160 training centres and of these about 80,000 were supplied to the Defence Services. The Scheme aimed at the training of fresh recruits and at the intensive training of semi-skilled men. Simultaneously, the Bevin Training Scheme was brought into operation for more intensive training in England of the skilled Indian workers. This was mainly done to meet the needs of ordnance factories and civil industry. Candidates were selected from amongst the factory workmen in India and were sent for advanced training of an approximately 8 months in England at Government expenses. Nearly 1000 technicians received training in the U. K. under the Scheme. The war really showed the talent and adaptability of the Indian worker. The American Technical Mission visiting India in 1942, was impressed by his manual skill and his capacity to learn new trades and pick up new ideas.

The Report on Post-War Educational Development in India (the Sargent Report) of 1943 made some important suggestions in this connection. It emphasized a practical approach to technical education and advocated the adoption of Wood-Abbot Report on the point. At the same time, it recommended that all education in the technical side other than that given in the technological departments of education should be placed under a central controlling body to be known as the All India Council of Technical Education having representatives of all the interests concerned.

The University Commission Report which was made public on 25th August, 1949 has also made recommendations for technical and professional education. The Report recommends greater expansion of such education in respect of both agricultural education and industrial education. Expansion of legal and medical profession has been given great importance by the Commission. Their practical suggestion relates to the adoption of "objective tests" on the American model in place of the present system of examinations which require essay kind of reply.

At the present time there are two important agencies for technical training available to India. One is the United Nations Technical Assistance Programme devoted to the needs of the South and South-East Asian countries so as to increase the technical efficiency of their indigenous services. The other is the scheme of technical cooperation formulated in May, 1950 under the Colombo Plan. This scheme provides for bilateral Technical Assistance between the Commonwealth countries and is to work in liason with the

various agencies of the United Nations and with the 'Point Four' programme of the U. S. A.

THE PRESENT POSITION IN INDIA :

Professional and Technical Education.

That there is a general dearth of such educational centres in India is an admitted fact. The estimated number of such institutions and the students on rolls is as follows :—

Branches	No. of Colleges	No. of Students
Engineering and Technology	17	6,437
Medicine and Veterinary	29	9,656
Agriculture and Forestry	15	4,015
Commerce	18	14,658
Law	15	7,676

N.B. The above estimates relate to the year 1947—48 and are in respect of the Indian Union alone. The number of students includes also students in classes attached to Arts and Science Colleges and University Department. The number of both colleges and students has since then increased but not considerably.

Vocational and Sepecial Instruction,

Types of Institutes	No. of Schools	No. of students
Engineering Technical and Industrial	509	31,315
Medicine	20	4,387
Commerce	302	15,085
For the Handicapped	48	1,899
For Adults	6,536	1,84,035
Other Schools	2,304	91,559

The above figures relate to the period 1947-48 and include also the number of students attached to the industrial classes of the primary schools. They also include the institutes for the deaf, dumb and the blind.

Industrial Research.

The first attempt in the field of applied research in India has been the establishment of the Indian Council of Agricultural Research in 1929. The institutes under the Council have contributed much to the development of agriculture and animal husbandry. Many new types of wheat have been evolved and successful locust fighting devices and anti-soil erosion methods have been perfected. The two branches at Mukteswar and Izatnagar have done useful research in animal husbandry and have successfully combated several cattle and poultry diseases.

In the sphere of public health, the Haffkine Institute of Bombay prepares improved varieties of vaccines and serums. The Pasteur Institute at Kasauli has acquired an international fame in anti-rabic vaccine. The School of Tropical Medicines in Calcutta specialises in the study of diseases peculiar to India and has discovered and tested several indigenous drugs which have been found useful in a number of cases. Similarly, the Malaria Institute at Delhi and the Nutrition Research Laboratory at Coonoor are doing much useful work.

An Industrial Research Bureau was set up in 1935 to cooperate with industry in the matter of research, to publish bulletins and to organise industrial exhibitions. To promote industrial progress through planned scientific research, the Council of Scientific and Industrial Research was created in 1942. The laboratories under the conncil have discovered new industrial and chemical processes and have been successful in manufacturing lubricants and internal combustion fuels from vegetable sources. Manufacture of radio sets, telephones, etc. are some of the works going on now. The Council has opened the following series of National Laborataries :—

(1) The National Chemical Laboratory, Poona ;

(2) The National Physical Laboratory, Delhi ;

(3) The National Metallurgical Laboratory, Jamshedpur ;

(4) The National Fuel Research Institute, Digwadih—Dhanbad ;

(5) The Central Glass and Ceramic Research Institute, Calcutta ;

(6) Road Research Institute, Delhi ; and

(7) The Building Research Station.

Several other institutes are contemplated. They are the

Drug Research Laboratory, Food Technological Institute, the Electro-Chemical Industries Research Institute and the Leather Research Institute. The Council of Scientific and Industrial Research has also set up a Board of Research on Atomic Energy. The Council in order to secure proper coordination between the industry and research, is promoting the formation of Industrial Research Associations on a cooperative basis. Funds are provided jointly by the Government and the industry concerned.

Technical Training and Engineering.

Of late, as a result of the recommendations of the Scientific Manpower Committee and the University Education Commission, much progress has been achieved in technical and vocational training. A post-war vocational training scheme has been chalked out under which a large number of Polytechnic and other training institutions have been set up. Grant of scholarships for advanced studies abroad has been greatly liberalised and arrangements have been made with the technological institutes in U.S.A., U.K., Canada and Australia for greater admission of Indian students. The Cottage Industries Board has secured the services of experts from Japan for the training of cottage workers and work is going ahead at a number of centres. The Government are examining schemes for two higher technical institutes which, when set up, will provide facilities on a considerable scale for training and research in engineering and techonology for graduate and post-graduate students and research workers.

In the sphere of engineering the accommodation in the existing colleges has been increased. The Roorkee University has taken up large scale training in a number of branches in engineering. The number of engineering colleges has been increased. At the same time, the engineering industries promoting research and training are being subsidized. Private initiative in the field is also on the increase. The total number of High Educational and Technological Training Centres in India was estimated at 2,777 and their output of trained men was 1,25,790 in 1949. This is the basis with which the Colombo Plan has started to plan for the expansion of such education.

Commercial and Managerial Training.

There are a number of commercial colleges inside the country. Besides many of the Arts and Science colleges have commerce classes attached to them. It is, however, a fact that most of the commercial classes have a pronounced theoretical bias. Teaching is, in general, not very useful for practical work. There is, therefore, need for the revision of syllabus in most of the cases. Most of the branches of commerce make their own arrangement for the training of

their staff. The different chambers of commerce have been liberally granting scholarships for study abroad. The Registered Accountant's training firms and institutions, of late have made notable progress. The Reserve Bank of India has its own arrangement for the training of staff and officers. *The Indian Institute of Banking is doing useful work in this* direction. The training facilities for the managers and the supervisory grades, however, have not made much progress. It is the scarcity of managerial and supervisory skill which must be considered as one of the most important hindrances in the way of nationalisation of industries and one of the most important cause for the thriving of the managing agency system.

CAUSES FOR THE SLOW DEVELOPMENT IN INDIA :—

The reasons for the slow development of commercial and technical education in India are not far to seek. The old adage "necessity is the mother of invention" is cent per cent true in this case. The basic fact is that the industrial development of the country has been so slow and, one may be tempted to say, rather so negligible that even in the recent past not much need was felt for such education in the country. Properly speaking, it was only after the first world war that industrial expansion on the real and modern lines started. One more basic factor about the industrial development of India must also be kept in mind. It was mostly through foreign initiative and foreign capital that industrialisation of the country progressed. The foreigners were not, in the least, interested in the training of native skill and native workmen. They could obtain a whole crop of technicians, skilled workers, supervisors and managers from their own countries whom they considered as definitely more reliable, more efficient and more useful.

Indian labour was recruited mostly for the unskilled jobs in the lower grades. The practice of the indigenous industrialists also continued to be to recruit technicians and managers from abroad and in many cases management was entrusted to a managing agency firm of Europeans. Naturally technical and vocational training did not make any progress in the country. It was only later on, when under the influence of protection industrial and commercial expansion was more rapid and more wide-spread, that the need for Indian technicians was felt. The *Swadeshi* movement aiming at the Indianisation of all services and enterprises also created a strong case for the expansion of commercial and technical education in India.

Such education did not, however, make much progress because of the general apathy of the foreign government which was never interested in the industrial and economic development of the country. Industrialisation was permitted

because of any good intentions on the part of the British Government but because of the force of popular support behind it and because of the emergencies of war.

The following additional causes retarded the growth of such education :—

1. After the constitutional reforms of 1919 education became a provincial subject. This created a two fold difficulty. In the first place, the Provincial Government had no adequate funds for any large-scale development of educational facilities. Secondly, co ordination between the efforts of various Provincial Governments could not be achieved. This led to isolated efforts by different Provinces and the pooling together of resources could not materialize.

2. The scope for gainful employment specially for highly trained people in the country was awfully small. The result was that many of the foreign trained experts failed to obtain proper jobs, for themselves. This created a very depressing tendency. Even during the recent war a large number of technicians received training in the U. K. and many of them are now finding it difficult to obtain suitable jobs.

3. The managing agency system and the hereditary character of business management reduced the incentive for commercial education and training.

4. Most of the specialised jobs and services were manned by the European, and Indians could not aspire to acquire them, hence, there was no incentive for higher training.

5. The general poverty of the workers and the paucity of funds at the disposal of the Central and Provincial Government made the establishment of costly training centres a difficult job.

THE PROGRAMMES FOR FUTURE :—

India and the Colombo Plan.

The authors of the Colombo Plan have noticed two important snags which are likely to paralyse the Plan. They *are technical and financial. Measures* have been devised to meet both. The Plan states "an essential part of the economic development of South and South-East Asia is the provision of trained men, whether experts or craltsmen, to carry out the projects already in hand, to initiate other schemes in the programmes and to raise the level of technical scheme among agricultural and industrial workers. It is for this reason that, in addition to direct the productive projects, provision has been made in the programme for training institutes, technical schools, research laboratories field stations, experimental farms and other agencies through which knowledge can be increased and dissiminated. These

schemes, although many of them are small in terms of capital cost are indispensible to the success of the programme as a whole." The Plan thus, not only recognises the importance of technical training but also suggests better utilisation of the existing facilities, expansion of them and the provision for technical aid. The Plan discovers that India requires technical aid particularly in the field of engineering. There are three ways of correcting the snag, firstly, expansion of training facilities in the area, secondly, ensuring adequate training facilities for students in the overseas universities, technical institutions, public utilities and private manufacturing establishments of all kinds and thirdly, obtaining trained personnel from abroad. Trained men are required not only in the higher grades but also in the middle and lower grades. The Plan has estimated India's requirements from abroad for the purpose for its duration as follows :—

Types of Experts.	No.
Agriculture	37
Fisheries	6
Miscellaneous industrial experts	8
Engineers—	
Civil	25
Mechanical	339
Electrical	36
Chemical	11
Others	41
Industrial Chemists	1
Statisticians	2
Research Chemists	18
Medical	49
Education	13
Miscellaneous	52
Total	638

Government's New Plan.

Meanwhile, the Central Advisory Board of Education has already put into practice a five-year educational development programme which the State Governments have been asked to give effect to. The most important feature of this plan is the provision for universal compulsory primary education. The Central Advisory Board will perform the useful function of coordination of efforts by the States and will, besides, offer advice. The Union Government is also expected to subsidise some of the schemes and is to open two centres for advanced technical training. The research in the universities and the colleges is to be encouraged and subsidized. At the same time, partly as a part of refugee rehabilitation and partly to absorb the ex-servicemen in useful jobs, technical

training centres have been opened. Expansion in the health and engineering services is also being contemplated. Full utilisation is expected in respect of the United Nations Technical Aid Programme and the "Point Four" programme of the U. S. A. Liberal grant of scholarships for advanced studies is being made. It must, however, be remembered that not much has been done in respect of commercial education. This is, indeed, a great drawback. There is urgent need for the starting of managerial training.

THE CONCLUSION :—

It has been noted before that there is a great need for technical and commercial education in India. The first Five-Year Plan has just been ont. The Plan may be condemned as being too modest or as being too unambitious but the fact remains that even its sncces depends on our capacity of managing the necessary technical and vocational skill. The Plan, if it can set the ball rolling, will be a distinct advantage in itself apart from the practical advantages that it is likely to confer. At present we are indeed in a vicious circle. On the one hand, we complain of the lack of suitable hands and skill for our programmes of industrial expansion while, on the other hand, as has been noticed, we are unable to provide snitable jobs to such people as get special training. This is a curious position. The only way out of the situation is a coordination between industrial and technological development. The suggestion of the Wood-Abbot Committee that technical training should be preceded by a careful survey of the needs of industry is, in fact, very pertinent to the question. Association of industries with schemes of technical and vocational training is also very desirable.

Wanted a New Approach.

It seems desirable to point ont here that we cannot depend for ever on foreign assistance in the matter. Expediency demands that we should not fail to take full advantage of the facilities' that we can secure on honourable terms from the foreigners. But such facilities should always be used with a view to developing training facilities in our own country. It will be a very desirable thing if we insist upon the retention of foreign capital in India only on the condition that in the foreigner owned industries the employees will be exclusively Indian except where suitable Indians will not be available and that such indutries will not hesitate to share technical secrets and industrial training with India. Already in respect of import of fresh foreign capital one such condition has been announced. It is necessary to make it general for all foreigner owned and managed industries.

Greater efforts should also be made for the expansion of Commercial education. This will be an important effort

towards the subsequent nationalisation of industries where not only technicians will be required but there will be need for managers, foremen, accountants, computers and such other people. Moreover, any expansion of industries without an increase in respest of these will not proceed on sound business lines. Our Govenment has almost acquired a notoriety for mismanagement of their commercial undertakings. The state-owned enterprises should become the models for others and for this the services of most efficient managers and supervisory grades must be available to them.

Suggestions for further reading :

1. The Wood-Abbot Report.
2. The Sargent Report.
3. The University Education Commission Report 1949.
4. The Colombo Plan.
5. The Indian Year Book 1950.
6. India—issued by the Ministry of Information and Broadcasting.
7. The U. S. Point Four Programme.
8. India and the Colombo Plan: V. Vithal Babu.

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THE GANDHIAN ECONOMICS

Synopsis :—

1. Introductory—Gandhiji is the most widely known person in India, he is rightly the Father of the Nation, his honesty of purpose, integrity of character and practical approach combined with his keen insight into Indian conditions of life made his appeals very meaningful.

2. What Gandhian Economics Implies—it is the system of Gandhiji's economic philosophy and thought; the back ground is provided by the evils of British imperialism, the achievements of socialistic and capitalistic systems, his keen study of Indian mind and life and his social outlook.

3. The Philosophical Foundations of Gandhism—they are ahimsa or non-violence, universal brotherhood and truth.

4. The Economic Philosophy of Gandhiji—dignity of labour embracing equality of men, equality of professions, abhorence of caste and communalism and religious tolerance; industrial philosophy based upon small-scale and cottage industries, abolition of heavy and intricate machinery and industrial dispersion; agriculture, emphasizing abolition of landlordism; peasant-proprietorship and small-scale cooperative farming and in respect of distribution and public finance.

5. A Critical Review—it appears to be a retrograde step, evils of the use of machinery have been confused with the evils of machines themselves, peace can be secured through the development of backward countries. Gandhism is not socialism because it is not based upon an analysis of the laws of social system and is not practical.

6. The Conclusion—Gandhism is a theoretical ideal it has fulfilled the important missions of national awakening and social reform in respect of untouchability etc.

Introductory :—

No body has influenced the trends of thoughts in the contemporary India to the extent to which Mahatma Gandhi did. His name is a legend throughout the country. For

the general masses his name and memory are objects of worship. People have been found to differ with Gandhiji, and they have often differed fundamentally, but this difference of opinion has not decreased their veneration for him. His is the only name known in the remotest corners of rural India and he has been the greatest inspiration for the young and the old alike. Even in future his name is likely to evoke the greatest of response from the Indian peasants and the simple village and town people. The various political parties in the country recognize it and do not often fail to exploit his sacred name for their political ends. The stories in the past have been that the simple people from the villages have dropped coins along with the ballot papers in the ballot boxes of the Congress candidates thinking that these would be carried to Gandhi Baba. Many of the political leaders owe their popularity not to their own merits so much as to the associations that they have had with Mahatma Gandhi.

Gandhiji is, really speaking, the architect of modern India and has been rightly called "the Father of the Nation." His writings and teachings have had a tremendous influence over the popular mind so much so that the political and economic-philosophy of the country has been modelled on the lines chalked out by him. Gandhiji was no dictator. He was, by his very nature, the anti-thesis of it, yet his reasoning carried conviction. The force of his personality was so great and his practical approach to everything was so well marked that even his adversaries in politics had to bow down to him. The simplicity and austerity of life practised by him caught the imagination of the people. He became the embodiment of all that is good and noble in the Indian culture and this he remarkably combined with the progressive idealism of the West.

Gandhiji had the honesty of purpose, integrity of character, persistence, perseverance and the capacity for much hard work. He was able to read the Indian mind fully and properly. The internal intricate working of the Indian mind, the popular whims and superstitions of the country and the cultural and religious basis of Indian thought were fully appreciated by him. He, therefore, modelled his philosophy not only on the courage of his personal conviction but also on the background of the social, economic and cultural thought and practices in India. This was the main reason for the success of his appeal. He did not preach mere idealism. His was a practical philosophy of which he was himself the best specimen.

Like all the great men of the world, Gandhiji was the product of his age. There is a pertinent saying that there is only a subtle difference between greatness and madness. Both are very nearly the same. If your madness coincides

with the national or social hysteria of the age you are a hero. If on the other hand, it goes against the popular idiosyncracies you find your place in the lunatic asylum. Whatever be the truth of this contention, the fact remains that, in the case of Mahatma Gandhi, it has to be understood that many of his actions appeared to be the products of an irrational mind but they were in close correspondence with the social irrationability of the period. The burning of foreign cloth, the passive resistence and the directions of the "inner voice" can not be understood apart from the fact that they were based upon a careful assessment and realisation of the sentimental cynicism of the mass of population. Gandhiji could read the pulse of the people remarkably well and did not hesitate to exploit their sentiments in his own persuasive and noble manner.

The objective conditions of the development of British imperialism in Indian gave birth to a large number of great men who represented a revolt against the existing order of things, the whiteman's supremacy, the ruthless exploitation of Indian resources and the miserable plight of the population in general. The powerful voices of Dadabhai Naroji, Lokmanya Tilak, Surendra Nath Bannerji, Lajpat Rai and Moti Lal Nehru were raised in protest. The same was the case with Mahatma Gandhi, who was shocked by the misery, the humility and the ill-treatment meted out to Indians in South Africa. On coming to India, Gandhiji made the political independence of India the mission of his life. But as a practical philosopher he also tried to analyse the internal weakness of the country. He, therefore, adopted a concerted two-fold programme of ousting the British and of bringing about internal social and economic reforms. This gave him a distinct advantage over the other stalwarts working for the political emancipation of the country.

What Gandhian Economics Implies?

The Meaning.

Gandhian Economics is a vague and loosely-defined concept. It means the economic philosophy of Mahatma Gandhi. Roughly speaking, it embraces the sum total of the economic ideas and the economic and socio-economic ideologies of Gandhiji. It is true that Gandhiji never laid any claim to the creation of any economic philosophy of his own, but his ideas expressed in various contexts and his general approach to the practical problems of life are enough to give an idea of a system of economic thought which has been associated with his name. The *chelas* and the followers of Gandhiji have tried to interpret his practical philosophy regarding economics and this can be given the name of Gandhian Economics. Of the most important interpreters of the economic ideas of Mahatma Gandhi are Prof. S. N.

Agarwal, the author of the Gandhian Plan for economic development, Prof. Dantwala, Shri Mahadev Desai and Mr. Pyare Lal, the Private Secretary of Mahatma Gandhi, who have all tried to indicate the main trends of the Gandhian way of economic thinking. Of late, the Sarvodhya Samaj, Acharya Vinoba Bhave and so many others have tried to interpret the economic ideology of Gandhiji. The best source of information, however, remain the various writings and speeches of the great Mahatma himself.

The Background :

To understand the economic thought of Mahatma Gandhi it seems necessary to analyse the objective conditions of life obtaining in India during the days of the development of his thought. The objective conditions continue to be much the same even to-day with the only change that the foreign domination has ended.

By far the most important factor influencing the thought of every political, economic or social thinker in India has been the presence of the foreign rule. Politically and economically India was made an accessary of Britain, a useful part of the British Empire. England had a very highly industrialised economy of her own and her trade, commerce and her shipping, banking and insurance services were highly developed. Free trade was naturally, the best policy for her as it gave her economic strength necessary to crush the development of industries in the hitherto undeveloped countries. What, in fact, England wanted was an assured abundant supply of raw materials for her manufacturing industries and a free flow of food-stuffs to feed the population. On the other hand, she wanted extensive markets for her manufactures abroad. India was ideally suited for both these purposes. Because of a variety of soils and climates and rich natural resources she was ideally suited to the production of raw materials while her vast population coupled with backward industrialisation provided useful extensive markets. The Britishers, therefore, tried to develop the country's economy accordingly. The highly developed cottage industries of the country were exposed to the full rigours of competition from machine made goods, such competition being increased with every expansion of the means of transport and communication in India. Moreover, the Indian industries were also subjected to discrimination, indifference and active hostility. India was gradually converted into a raw materials producing country for the organised industries of the West. In the course of time, the cottage and small-scale industries declined and gradually began to disappear and the Indian economy became primarily an agricultural economy.

The foreign rule was also interested in keeping the caste and class prejudices in the country alive as a part of the

divide and rule policy. The result was that communal tension became a problem. Factionism increased and mutual jealousies and rivalries became distressing. At the same time, the treatment that Indians received at the hands of the British was far from honourable. There was naked discrimination in favour of the white man and the nation was gradually losing its self-respect and was developing inferiority complex. This was indeed very dangerous for the healthy growth of the national life.

The second factor worthy of note is that Mahatma Gandhi lived at a time when the two economic systems of capitalism and socialism had played their historic roles. It was now possible to analyse the demerits and the achievements of both. Gandhiji was very well aware of the criticisms of hundreds of years against both and was, as such, able to assess the correct position. Moreover, the lessons of the two world wars, were before him. It was clear that every modern war is economic in origin. It is a scramble for the acquirement of economic power and for the purpose of exploiting the weaker nations. The horrors of war have been so great that no economic philosopher of any merit could afford to neglect the direction of economic policies and ideologies towards the preservation of peace. Much heart searching on the question has been visible in the near past. It has been clearly recognised that so long as the desire and opportunity to exploit weaker nations continues, wars must continue too. Mahatma Gandhi had, naturally, to think in the background of this conflict of economic ideologies and interests and the influence of the same on his thought is clearly visible.

Thirdly, as a realist and as a practical philosopher, Gandhiji could not divest his thinking from real facts of life. He had a mission to perform. It was a mission of achieving something tangible and material for the people of India. Mahatma Gandhi, therefore, made a factual study of the moral, material and cultural fibres of Indian life and developed his thoughts and philosophies accordingly. His ideas are imbibed with the glorious cultural heritage of India. They are in conformity with the actualities of Indian life and conditions, there is no theorising devoid of practability and the object has been to fit in these ideas into the general framework of Indian mind.

Lastly, Gandhiji fully realised that economic philosophy for India can best be developed in conjugation with a social and political philosophy. It must be peculiar to India and must be on the basis of a few basic postulates of the ancient Indian ideals of selfless love, peace and morality. It will not be very wrong to say that the Gandhian economics has developed a synthesis of all that is good in the east and

the west with the Indian strain predominating. The synthesis of course, has a practical and real basis.

THE PHILOSOPHICAL FOUNDATIONS OF GANDHISM :—

Mahatma Gandhi, as has been pointed out before, starts with some of the basic postulates over which the whole edifice of his thought is based. These are the postulates of *ahimsa* or non-violence, universal brotherhood and truth. These are the guiding principles in the light of which every thought and action is to be judged and tested. They are the primary pre-requisites which must be satisfied in all that is thought, said or done.

Ahimsa or non-violence is the first guiding principle. It deprecates the use of violence in any form or circumstance. It will be difficult to give the full significance of the Gandhian concept of *ahimsa* mainly because too much has been said about it and such subtle discussions have taken place that several volumes will be required for its interpretation. It must, however, be remembered that *ahimsa* does not imply lack of resistance to evil. It simply implies a passive resistance, the resistance of the soul rather than that of the material body. Lack of hatred for the enemy and of revengefulness, are the basic requisites of this passive resistance. Shri C. Rajgopalachari speaking at the convocation of the Lucknow University once remarked, "In the methods of violence we destroy the enemy and bring his enmity to an end, while in the methods of non-violence, we retain the enemy and simply destroy his enmity." The destruction of enmity is to be brought about by the superior moral and mental qualities. It is the heart and soul of the enemy that must be stirred to the realisation of truth and justice. Killing the evil-doer in place of the evil is neither good nor desirable. It is no solution for the eradication of evil. At the same time non-violence is not the philosophy for the weak. It will be robbed of all its value if it is practised simply because violence is not possible. It must come from within and must be cultivated. The process of cultivation is long and arduous and not all can be truly non-violent. The final stage is when one ceases even to think in terms of violence.

It should be kept in mind that the theory of *ahimsa* is not a pure idea. It has been put into practice and has been found efficacious. The only difficulty is that the true *satyagrahis* are not easily to find. The political struggle against the British in India was launched by Gandhiji on the non-violent lines. It took the shape of boycott of British goods, non-cooperation with the Britishers in every form and the passive resistance or *satyagrah*. The success of the policy in the fight against the British imperialism has evoked much hard thinking on the part of people all over the world. It

industries must not only create more employment but they must also reduce the seasonal unemployment of the agricultural workers. Another great advantage of them is that they can be started and run with small capital and often on the cooperative principle.

In the same connection we must also note the Gandhian emphasis on industrial dispersion and regionalism. Gandhiji wanted to make every village a self-sufficient democracy. By far the greatest curse of the British rule has been the disruption of the village economy and the concentration of industries in a few big towns. This has created the problem of industrial regions and has created vast problems of public health and morality while uprooting the mass of population from their natural surroundings. Similarly, he will want to reduce the country's dependence on the foreign imports to the minimum. This does not, however, imply a closed economy. What it stresses is that too much dependence on imports is a risky proposition—a lesson which the two World Wars have taught the world so well. Cottage industries, by their very nature do away with localisation of industries and are diffused all over the country and they are therefore, ideally suited even for the achievement of this objective. In respect of the cottage industries it must be further claimed that they can do away with the problem of commercial and technical training and can use small hand-driven and power-driven machines. The success of the cottage industries of the latter type in China and Japan, indeed, testifies to the economic sagacity of Gandhiji.

Agriculture.

Mahatma Gandhi was opposed to the institution of absentee landlordism and lent his full weight in support of the *zamindari* abolition. He preferred a system of peasant proprietorship where land is the property of the tillers of the soil. He was also in favour of cooperative farming so as to remove the so many evils of agriculture in India. But his emphasis here, as in the case of industry, was on small-scale farming with or without the use of power-driven appliances. He was also in favour of agricultural research, increased irrigation and consolidation of holdings but he firmly believed that nothing should be forced upon the farmer. His mental faculties and training through persuasion and demonstration should be so developed that the initiative comes from him.

Other Ideas.

In the sphere of distribution and public finance the ideas are not so clearly well defined. But the emphasis is on the equitability of distribution. All taxes which fell heavily upon the people or indirect taxes on articles of necessary

should be removed. The struggle against the salt tax was a part of this policy in the same connection.

A CRITICAL REVIEW :—

Is it a Retrograde Step ?

It is rather difficult to pronounce a critics' judgment on the ideology of Gandhiji whose every word has almost the force of a command in India and whose every action has been an object of veneration. Above all, Gandhiji tried to demonstrate the truth of his ideas by his own personal example. He himself became the true *satyagrahi* carrying on a relentless passive resistent not only against the mighty imperialist forces of Britain but also against his political opponents in India itself. He also set his personal example in the matter of manual labour and austerity of life. The Sevagram colony near Wardha where he mostly lived was a model colony working on his principles and translating into action his ideology.

While all this is true it has to be admitted that, judged from a progressive standpoint, his is a retrograde step. He wants to put the hands of the clock back. There seems to be a confusion between the evils of capitalism and large-scale production and machinery. What has been forgotten is the common truth that nothing is good or bad in this world. It all depends upon the type and manner of use of a particular thing. The same is true of machinery and of the large-scale industrialisation. If they are used not for the benefits of a few but for the benefit and in the interests of all they can be a real boon to human society. Experience shows that it is possible to do so. Industries can be run for the people. What is generally overlooked is the fact the machinery and large-scale production by assuring the freedom from want through greater exploitation of nature and her resources add to the sum total of human happiness. What will happen to us if we dispense with our defence services, wind up our big industries and take to the bullock and plough cultivation in full should best be left to the imagination of the reader?

Regarding peace, the fundamental cause of wars is the presence of the economically backward countries in the world. The moment we solve this problem satisfactorily, we shall be laying down the foundations of real peace. While the race for rearmament must be deprecated, the solution of world peace must be sought in the context of existing conditions. It should not be sought through the establishment of an imaginary state of affairs which is no better than a dream.

Gandhism versus Socialism :

Gandhism is, sometimes, loosely talked of as some sort

of socialism. It has now become a practice for the socio-economic thinkers to develop new brands of socialism. As Joad has remarked, "Socialism is, in fact, a hat which has lost its shape because every body wears it." There are certain features of Gandhism that give it a socialistic tinge. His emphasis on equality, fraternity and democracy, the plea for the abolition of unearned income and landlordism and the abolition of the profit motive are all socialistic ideas. But Gandhism is not socialism for the reason that it lays too much emphasis on religion and the so called morality which under capitalism is, at best, a dignified term for exploitation. The weakness of Gandhism lies in its failure to analyse the working of the capitalistic system and in its inability to co ordinate progress with the social order. Despite Gandhiji's personal example and the tall claims of his followers it has simply remained a mere idealism. The *chelas* of Gandhiji are ruling the country at the present time and they cannot claim to have achieved any thing more than what an ordinary capitalist state can do. They have only added confusion to the straight thought on the social and economic front.

THE CONCLUSION :—

We have noted above the basic features of Gandhian economics. We have noticed, in particular, its emphasis on a casteless and classless society, its plea for cottage industries and peasant farming and its ideas about industrial dispersion and regionalism. We have also noted how the actual conditions of material life have tended to influence the Gandhian economics. The Sarvodya Samaj under the inspired leadership of Acharya Vinoba Bhave is endeavouring to give practical shape to the ideals of Gandhiji. The huge growth of *khadi* movement and the *charkha sanghs* is also there. The Kasturba Memorial Trust is busy with the training of village workers in the Gandhian ways of life. Thus, attempts are being made not only to spread the teachings of Gandhiji throughout the country but also to demonstrate the successful working of his system.

It must, however, in all fairness, be said that, judged from the present state of affairs, tangible progress is a matter of generations. The importance of Gandhiji lies in the fact that he represented a revolt against the existing order of society. He has been the greatest inspiration behind the movement for the political emancipation of the country. His teachings in economics bear a mark of it and are inspiredly nationalistic in many respects. The ideal of secular democracy which India has set before her is his great contribntion to our political life.

From the practical point of view, two distinct contributions of Gandhiji stand out predominantly. One is his useful work for the removal of untouchability and his uplift of the

backward and the down-trodden classes. The other is the creation of interest in every thing Indian. He has given the people of the country self-respect, self-confidence and freedom and for these the nation must ever remain grateful to him.

On the purely economic side there is not much that India has obtained from him. His ideas are in the nature of theoretical ideals often beyond the compass of the average man. There is, however, no denying the fact that he has been one of the greatest thinkers of our age and the influence of his ideas must continue throughout the ages.

Suggestions for further reading.

1. The Gandhian Plan : S. N. Agrawal.
2. My Experiments with Truth : M. K. Gandhi.
3. Ahimsa : M. K. Gandhi.
4. The Harijan.
5. The Diary of Shri Mahadev Desai.
6. The Collection of Gandhiji's Writings published : The Navjiwan Trust.
7. Mahatma Gandhi : Romain Rolland.
8. The Convocation Address delivered : C. Rajgopalachari at the Lucknow University in 1946.

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THE IRON AND STEEL INDUSTRY IN INDIA

Synopsis :—

1. Introductory—iron and steel industry has had a recent origin, history tells us that Indians were familiar with the use and manufacture of steel even in the remote past and were even exporting its products.

2. The Early History—modern methods were first introduced by Sir Josiah Heath in 1830, steel manufacture was first attempted in 1905, the first successful attempt was made by Tatas in 1907 ; during World War I expansion was great as many theatres of war were supplied from India, a large number of heavy and light steel goods were manufactured in India.

3. Protection and the Development of the Industry—under the policy of Discriminating Protection, as a result of the recommendations of the Tariff Board, the Steel Protection Bill was passed in 1924, bounties were granted to Indian steel ingots in 1925, there was good progress under protection ; protection was reviewed and regranted in 1927 and 1934, the last measure granted protection upto 1941.

4. The Second World War—there was a boom in the Industry even before the outbreak of the war, with the war prosperity began, many new lines of production were opened and the government imposed control and rationing, during the war competition from abroad completely vanished ; a number of allied industries like ordnance factories, machine-tools, engineering and bicycle developed, many military stores were also manufactured ; protection and war have been two important factors for the rapid development of the industry.

5. The Post-War Period—slackening down of production and falling down of exports started, the downward trends still continue, we produce only about 50% of our domestic demand ; the new Tariff Board of 1947 recommended de-production from 31st. March, 1947, only certain special items of steel have been protected ; in the First Five Year Plan the industry has been included in the public sector and is given importance.

6. The Conclusion—the change in the protection policy is justified, there is the assurance of help in the case of eventual competition, the world shortage of steel, development programmes and the armament race must keep the demands up, they also call for greater efforts towards the development of this important industry.

Introductory :—

Some thirty years back the iron and steel industry on a modern scale was non-existent in India. To day India has practically reached self-sufficiency in the widely used forms of steel. It is now a vital basic and defence industry. The Second World War has clearly demonstrated its usefulness and indispensibility.

The use of iron and steel was known in India even some five thousand years ago. The famous "Iron Pillar" of Delhi is estimated to be about 1500 years old. Considerable skill must have been exercised in welding and shaping this pillar which is over 23 feet in height, weighs about 6 tons and varies from $12\frac{1}{2}$ to $15\frac{1}{2}$ inches in diameter. There is evidence to show that steel was being manufactured in India 100 years back. Swords or dagger blades of genuine Indian manufacture can still be obtained in northern India. They also appear to have been exported to Persia centuries ago. It appears, however, that the progress did not proceed beyond a certain point. Indian manufactures never overcame certain difficulties and did not progress with the time.

THE EARLY HISTORY :—

It was only in 1830 that the first attempt was made to introduce modern methods of manufacturing pig-iron and steel in the South Arcot district in Madras. The enterprise, however, proved a complete failure and the Company started by Sir Josiah Heath ceased operations in 1874. A new attempt was made by Messrs Jessop & Co., which finally resulted in the erection of Barakar Iron Co., at Kulti in 1875. After passing through several vicissitudes it passed into the hands of the Barakar Iron and Steel Company in 1887. In the beginning, the Company incurred losses. In 1889 the plant was modernized and was acquired by the Bengal Iron and Steel Company. Profits were for the first time recorded in 1889 only. An attempt was made to manufacture steel in 1905 but it resulted in heavy losses. A new era in the history of Bengal Company began in 1910 with the exploitation of new resources of iron ore in the Singhbhum and Manbhum districts. The Company was finally amalgamated with the Indian Iron and Steel Company Ltd. in 1937.

The credit for the first successful attempt to manufacture steel on a commercial scale goes to Jamshedji Tata. The Tata Iron and Steel Co. Ltd. was established at Sakchi in 1907. The Company produced pig iron for the first time in December 1911 and steel in 1913 and by 1916, mainly on account of the stimulus created by the war, the whole plant was in full production. Much of the success of this new enterprise depended on the genius, perseverance and foresight of its founder. The Tata Iron and Steel Works are

now the largest in Asia. The Works are situated at an ideal place. All important raw materials like iron ore and coal are found in the neighbourhood. As a matter of fact there are few instances in the world where high quality ore can be landed at so low a price. There is little wonder, therefore, that India produces pig-iron at the lowest cost in the world.

Progress During World War I.

During World War I the industry achieved stability and there was considerable expansion of its production. It provided large quantities of rails and sleepers for military railways in Mesopotamia, Palestine, East Africa and Salonika. New grounds were treaded upon when work started for establishing a new plant in 1917 which was completed in 1924. Finished steel products such as rails, heavy structurals, bars, light structurals, light rails and fish-plates were manufactured by the old plant whereas the new plant produced plates, black and galvanized sheets, sheet bars and sheet sleepers. A large many new enterprises developed as a result of the success. Of these the Indian Iron and Steel Company formed in 1908 by Messrs. Burn & Co. at Hirapur near Asansol and the Mysore State Iron Works started at Bhadravati in 1923 deserve special mention.

PROTECTION AND THE DEVELOPMENT OF THE INDUSTRY :—

After World War I, the Iron and Steel industry began to suffer from an acute depression. This was brought about mainly through the shrinkage of demand created by the war. By now, however, the government of India had adopted the policy of Discriminating Protection in 1923. The Iron and Steel industry was the first to receive the attention of the Fiscal Commission. A Tariff Board was constituted in July 1923 to examine the case of the industry for protection. The Board came to the conclusion that the industry fully satisfied practically all the conditions for protection except with regard to labour where skilled supervisors had to be imported from Europe and America. But the Board admitted that this was inevitable in the case of an agricultural country where industrial experience and training had still to be acquired. The Board also opined that the industry would either collapse or at least would not develop for a long time without protection. A special case for protection existed again because the industry was a basic one and was essential for military purposes. At the same time, it was discovered that the burden of protective duties on the consumers was likely to be temporary and widely diffused. The Board, therefore, recommended protection initially as an experiment.

The Steel Protection Bill was passed in June 1924. As a result import duties on bars and certain articles manufactured from steel were increased. In addition, bounties were given on the production of steel rails and fish-plates in India. In 1925 on account of a heavy decline in the prices of steel imported from abroad the government had to grant a bounty of Rs. 20 per ton on 70% on the steel ingots produced in India. Protection to the steel industry naturally raised the price of steel and it was discovered that certain industries using steel as a raw material began to suffer on that account. Subsidiary measures of protection were taken to safeguard the interests of such industries. Notably, the engineering industry was protected by imposing higher duties on imported fabricated steel.

During the first three years of protection satisfactory progress was recorded in the industry. During this period, however, steel market was highly unsettled. The continental countries had depreciated their currencies while the Indian rupee along with the pound sterling was overvalued. This caused a general fall in the prices of imports from Europe excluding U. K. and to a great extent made protection ineffective. With the stabilisation of foreign exchanges, later on, the price of steel by 1926 became stable although great disparity between the prices of British steel and Continental steel continued. The whole question was examined by the Tariff Board before the expiry of the Act of 1924.

Protection Reviewed.

A statutory enquiry was conducted by a new Tariff Board in 1926. The new Board recommended the continuance of protection on certain lines for a further period of seven years. The recommendations of this Tariff Board had two important features. In the first place, it recommended the stoppage of bounties which were proving too costly and, in the second place, it recommended different scales of import duties on the British and non-British steel, thus introducing the principle of preference through the back door. The two scales of duties were a basic duty fixed with reference to the price of the British steel and an additional duty in respect of the margin between the British and the continental prices of steel. The basic duty was to be levied on steel coming from all countries whereas the additional duty was to be confined to non-British steel alone. Accordingly, a Bill was introduced in 1927 and it came into force on the 1st of April, 1927.

A supplementary measure in 1928 granted protection on a small scale to the manufacture of wagons and underframes and of steel castings. In 1932, on the recommendation of the Tariff Board which reviewed the whole position,

protection was also extended to the manufacture of wires and wire nails.

In 1934, in accordance with the Steel Industry Protection Act 1927, the whole question of the renewal of protection was examined. Prior to this certain principles regarding protection especially with regard to preference had already been agreed to by the Government of India under the Ottawa Trade Agreement. It was, however, provided that in this agreement, in the case of iron and steel goods, the preference was extended only to those commodities which were not subject to the protective duties. The Iron and Steel Duties Act 1934 gave effect from November 1, 1934 to the protective measures recommended by the Tariff Board of 1934. The measures adopted resulted in a considerable reduction in the level of import duties in certain important cases. There was also a resultant reduction in the revenue from customs. It was found necessary to impose, as a revenue measure, an excise duty of Rs. 4 per ton on the production of steel ingots in British India and to neutralise the effect countervailing import duties on steel ingots were levied. Such a duty was in addition to the protective duty and was levied even in respects of articles where protective duties were not in force. The Act provided protection for a further period of seven years i. e. upto 1941.

THE SECOND WORLD WAR :—

Even before the outbreak of war in 1939 a boom had been produced in the iron and steel industry mainly as a result of the armament drive throughout the world. With the war on, the boom touched a new peak. An era of unprecedented prosperity began. Prices, production and profits all went high up. New lines of production were opened. Among the new manufactures may be mentioned high speed steel, armour piercing steel, bullet proof armour plate, wheels, tyres and axles. The Government, however, adopted stringent control measures in the domestic market. Iron and steel goods were rationed and could not be bought or sold except on permits at the fixed prices.

The war brought into existence a number of factors favourable to the industry. There has been a practical cessation of imports while at the same time there has been a considerable growth of civil and military demands and the exports. In fact, the demand had been so great that the industry found it difficult to meet it despite the huge increase in the old and new branches of production.

The Development of Allied Industries.

Amongst the allied industries which developed during the war special mention must be made of the ordnance factories, the machine tools industries, the engineering stores

industries, the bicycle industry, the locomotive manufacturing industry etc. The ordnance factories expanded tremendously with the increased production of guns, shells and high explosives and a host of others. In the matter of machine tools, only a small progress was made and the production of heavy machinery was not started. Definite steps in the direction have, however, been taken recently. The Loco Works at Chitranjan and the attempts to manufacture textile and sugar machinery have not yet begun to yield results. In the case of engineering stores, considerable progress has been made in the manufacture of steel pipes, sheds, cranes, petrol and water-storing tanks, stirrup pumps, lorries, armoured cars, wagons, railway stores, electrical stores, steel wire ropes, fire fighting appliances etc. The Aircraft factory at Bangalore has not yet begun to manufacture machine parts. It is mainly engaged in the assemblage of different parts.

A brief review of the history of protection to the iron and steel industry will show that the industry deserves a large measure of success mostly to the enlightened policy of protection. The production of pig iron advanced from 35,000 tons at the beginning of the century to 1,576,000 tons in 1938–39 of which 514,000 tons valued at Rs. 256 lacs was exported while, in the same year, the import of pig iron was negligible being only 2,800 tons. At the same time, in quality Indian pig iron has been equal to any Continental pig iron. The production of steel increased from 139,433 tons in 1916—17 to 1,703,000 tons in 1938—39.

The war created a huge demand for steel goods. Large orders were received from the Government and the Railways. Expansion of ordnance factories further accelerated the growth of the iron and steel and the engineering industries During 1939—40 output of pig iron shot up to 1,835,000 tons as against 1,575,000 tons in the previous year. Manufacture of steel increased to 2,129,900 tons from 1,703,000 tons. This meant an increase of 9·2% in the production of pig iron and 14·1% in the production of steel. In fact, the production in 1939–40 was almost twice that of 1932—33. In the same year lowest imports were recorded while there was a 25% increase of exports over the previous year. New steel plants have been installed at Jamshedpur for rolling billets and manufacture of wheels, tyres and axles, thus facilitating the manufacture of locomotives. Production of pig-iron and steel in 1945 was 1,489,000 tons and 2,262,000 tons respectively.

THE POST-WAR PERIOD :—

Slackening of production and falling down of exports are the outstanding features of our iron and steel industry after the war. Production of steel fell down to 868,850

tons in 1947 and still lower to 850,000 tons in 1948. Figures for 1949 and 1950 are still lower. The main causes for this decline have been the short and precarious supplies of coal, labour troubles and the transport difficulties. The coal scarcity and the transport problems have now greatly eased and there has been some improvnment in the labour situation too. None-the-less the production of iron and steel in the country still falls short of the demand. Even at a conservative estimate we require at least 2·5 million tons of iron and steel whereas our production is not even 50% of this demand.

In the First Five Year Plan announced by the Planning Commission in July 1951, the development of industries is contemplated in two different sectors, the public and private. The Iron and Steel industry, in view of the fact that it is a basic industry and also because its development is necessary for defence purposes, has been included in the public sector. This means that it will directly be developed by the state. The Commission feels that the development of this industry must be given priority over other large-scale manufacturing industries. It is clear that the eventual aim must be the production of machines and machine-parts in the country to give a real meaning to the programme of industrialisation. The actual scope for the development, will, however, he determined in the light of official and non-official judgment on the actual details of the proposed plan.

The New Tariff Policy :

In 1947 a new Tariff Board was appointed by the Government of India to examine the case of the iron and steel industry for continuation of protection. The Board was presided over by Sir Shanmukham Chetty. After listening to the view-points of the manufacturers, importers, merchants and consumers, the Board came to the conclusion that the industry's case for continued protection had not been made out and therefore, they recommended de-protection from the 31st of March, 1947.

The findings of the Board were that there was no actual or potential danger of foreign competition in the foreseenable future. In fact, there was a tendency on the part of the imports to fall down despite the relaxation of exchange control restrictions. The imports between 1938-39 and 1945–46 had gone down by 83.04% in the case of iron and 89·6% in the case of steel in the protected varieties. In addition the prices prevailing at the time in the important iron and steel producing countries of the world were higher than the prices of similar articles in India. This obviously meant that after adding up the transport and insurance cost their prices were not likely to compete with our own. These two facts, coupled with the gap between the domestic demand

and domestic production, were enough to provide incentive for the further expansion of the industry.

The Board, however, recommended continuation of protection to certain special items of steel such as alloys, tools, high silicon, electrical steel sheets and high carbon and spring wires until a full fledged enquiry was conducted in their case. It also recommended a readjustment between the revenue duties and protective duties. It was laid down that the revenue duties should not be higher than the protective duties and that, as far as possible, uniform scales of revenue duties should be devised.

THE CONCLUSION :—

Thus, we find that a change has taken place in the policy of protection to the industry. Under the circumstances, however, the change is quite justifiable. Even the representative of the industry did not categorically demand protection except for certain special items. What they demanded was that there should be an assurance from the Government that should necessity arise, protection would not be refused.' Such an assurance was also recommended by the Board. Thanks to the world shortage of steel and steel goods, the danger of competition is not there. In the domestic market, one can easily expect an expanded demand for the industrialisation of the country, for the development projects launched by the National Government and for the country's defence requirements. With the clouds of a Third World War hovering above it is unnecessary to fear foreign competition but it is, at the same time necessary, to develop this essentially defensive and basic industry.

Suggestions for further reading :

1. The Indian Fiscal Policy : B. P. Adarkar.
2. The Indian Year Book, 1950.
3. The Steel Protection Act, 1924.
4. The Report of the Tariff Board, 1924.
5. Evolution of Indian Economy : K. K. Sharma.
6. The Report of the Tariff Board, 1947.

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THE DEVELOPMENT OF THE SUGAR INDUSTRY IN INDIA

Synopsis :—

1. Introductory—India is the original home of sugar, to-day we produce at least half the sugar in the world; earlier the sugar industry was on the cottage scale, even to-day *gur* making is an important industry but when we talk of the sugar industry we have in mind the white sugar. Java has been our serious competitor in the past, the importance of sugar in the vegetarian diet of the people is great.

2. The Inter-War Period—in India sugar-cane of low quality was being produced, imports from abroad were tending to cripple the growth of the industry, duties were levied only for revenue purposes; the Indian Sugar Committee, 1924 found the yield of Indian cane very low and suggested measures to improve it.

3. Protection to Sugar Industry—protection was given in 1929-30, the Tariff Board advocated such a course with great force, the Board estimated that the industry would be able to face outside competition, the Act of 1932 imposed prohibitive duties on imports; there has been astounding development under protection, mills multiplied so fast that finally there was over-production, the Indian Sugar Syndicate was formed, an enquiry in 1937 further justified protection to the industry.

4. World War II—from 1944—45 owing to the shrinkage of cane cultivation and transport difficulties production began to fall; like other industries there were difficulties for the sugar industry also, in 1946-47 production fell to 10·7 lakh tons, a control on prices of sugar was enforced from 1942 and it became a rationed commodity, fall in acreage, labour trouble and scarcity of raw materials led to great fall in production, our needs now are estimated at 18 lakh tons against a production of nearly 10 lakh tons.

5. The Conclusion—the Indian Sugar Syndicate has been wound up, the Tariff Board has not recommended further protection, production is expected to go up and was at 11·2 lakh tons in the 1950-51 reason.

Introductory :—

India is the original home of sugar. It is said that sugar was produced and consumed in India at a time when the rest of the world did not even know its name. To-day India is the largest sugar producing country of the world. At least half the world's acreage of sugar is possessed by India. In 1940—41, 4·59 million acres were under sugar cane cultivation.

Early History.

Upto World War I the sugar industry was organised on a cottage industry basis and even to-day manufacture of indegenous sugar of either gur or Khandsari is carried on, on the same basis. In the post war period production of white refined sugar on the factory scale began. The development of the white sugar industry which has been spectacular seems to have eclipsed the gur-making industry but the latter still occupies a very important place in our economic life. About 70% of the sugarcane grown in our country is utilised in the making of gur. The Tariff Board in 1938 estimated that the average per capita consumption of gur in India was 25·8 lbs. while it was as high as 27·4 lbs. in U. P. At the same time the per capita consumption of white sugar was 7·6 lbs. Again, it is argued that gur has a 30% greater nutritive value than white sugar. But the process of the production of gur is more wasteful. The processes of manufacturing are often un-hygienic and there is no proper classification according to quality.

Despite the overwhelming importance of gur-making when we think of sugar industry it is white sugar that we have in mind. A description of the Indian Sugar Industry is, therefore, a description of white sugar manufacturing industry and the gur making industry is dealt with only casually as affecting the white sugar production. Greater activity in it means less in the other in general. At one time the Indian exports of sugar exceeded her imports But competition from Java sugar and the bounty-fed sugar from Europe dealt a severe blow to our industry. Cane-cultivation became unprofitable and there was a decrease in the area under cane in the beginning of the present century. In U. P. alone 180 refineries were closed down. The small scale production, wasteful methods, lack of use of machinery, manufacture of sugar from gur and the refusal of the government to allow the manufacture of rum out of molasses further depressed the prices of sugar. Inside the country the demand for sugar on account of the vegetarian nature of the diet was great. 899,370 tons of sugar were imported in the year 1913—14 alone while in the same year the acreage had decreased by about 8% as compared with 1890-91. The ground lost was, however, regained during the

World War I. The area under cane increased to 2,901,000 acres in 1918-19 as compared with 2,536,900 in 1913-14. This was possible by the stoppages of imports from Europe and by large purchases by U. K. which raised the prices up. *In the post-war period the fall in the sugar prices* again landed the industry into troubles.

THE INTER-WAR PERIOD :—

Upto the grant of protection in 1931-32 the condition of the industry was highly deplorable. In addition to the cheapness of the foreign sugar, low yield and poor quality of sugar-cane, inefficient and wasteful methods of extracting juice, and the difficulties of getting large supplies of cane near the factories lowered down the competitive power of the industry. The government had in the beginning imposed a 5% duty on imported sugar for revenue purposes. During the war and the post-war periods, budgetory considerations compelled the government to raise the duty to 10% in 1916, to 15% in 1921 and to 55% in 1930. In 1925, the duty was converted into a specific duty of Rs. 4/8/- per Cwt. In 1930 the duty amounted to Rs. 6/- per cwt., while in 1931 it was Rs. 7/4/- per Cwt. The imports of sugar in India, however, continued almost unabated so that in 1929-30 about 12000 tons valued at 15 crores of rupees were imported. The area under cane does not seem to have increased in the inter-war period.

The Indian Sugar Committee of 1920 very exhaustively dealt with the production of sugar in India. The Committee found that the average outturn of sugar in India was only 1.07 tons per acre as against 1.96 tons in Cuba, 4.12 tons in Java and 4.61 tons in Hawaii. The Committee opined that an increase in the yield per acre was necessary for the development of the industry. The Committee recommended a better selection of the varieties of cane and improved irrigation and manuring. The Committee estimated that the inefficient methods of cane crushing involved an annual loss of 1,054,950 tons of sugar in the manufacture or gur alone. Important suggestions were, therefore, made regarding the construction of furnances, the boiling of juice and the refining of sugar.

PROTECTION TO SUGAR INDUSTRY :—

Even since 1901 the Govt. had been taking an active interest in the development of the industry. An Imperial Sugar Cane Breeding Station was started at Coimbatore in 1901. In 1920 the Sugar Committee, as stated above, was appointed for the organisation and development of the sugar industry. Since 1929 the Imperial Council of Agricultural Research has encouraged the development of the white sugar industry. But it was only in 1929-30

that the Government adopted a definite policy on the suggestion of the Imperial Council for Agricultural Research to encourage the establishment of sugar factories through protective tariff.

The case for protection of the Indian sugar industry with a view to making India ultimately self-sufficient in respect of this commodity of everyday necessity was naturally a strong one and the Tariff Board reported in 1931 in favour of rigid protection. The Board found that the industry satisfied all the necessary conditions laid down by the Fiscal Commission. They expressed the view that in the national interest the area under sugarcane, should not be allowed to diminish and that a fresh outlet should be provided for cane by encouraging the expansion of white sugar industry. Unless steps were taken to develop the industry, they apprehended a disastrous slump in the gur market which would seriously affect the agricultural classes. In addition, the industry possessed a cheap and plentiful supply of raw material, labour, fuel and a guaranteed market while the industry was being handicapped by the strong competition of Javanese producers. The Board estimated that in fifteen years' time the industry would be able to reduce cost and face foreign competition. The Sugar Industry Protection Act was passed in 1932. The Act imposed almost prohibitive duties on imported sugar. It is really after the grant of protection that the real history of the large-scale sugar manufacturing industry begins.

Protection in Actual Practice.

The industry was given protection initially for a period of 15 years upto 31 March, 1946. The development under the shelter of protective tariff was simply astounding. Within two years there was 400% increase in the number of factories and since 1931-32 production of sugar has increased by 700%. There was a sharp decline in the imports which fell from nearly one million tons in 1930-31 to only 19,000 tons in 1936-37.

The imposition of the high import duties accelerated too rapid a growth. In U. P. and Bihar the mills simply multiplied. Caution was sometimes thrown to the winds with the result that a crisis caused mainly by over-production developed in the industry. Production began to expand in expectation of increased demand. In the year 1937, in expectation of continued rise in sugar prices which had reached a sufficiently high level in 1935-37, the acreage under sugarcane touched the record figure of about 4.5 million acres and the production of sugar was 12,30,000 tons. This was in excess of the estimated consumption of 11,50,000 tons. This over-production in the absence of

foreign markets led to a crash of prices. To avoid unrestricted competition, over-production and the consequent depression, the Indian Sugar Syndicate was formed and Sugar Control Acts were passed by the U. P. and Bihar governments. Under these Acts every new mill has to obtain a license from the government. All mills in these States have to join the Indian Sugar Syndicate and to sell their sugar through it. A Sugar Commission was also set up in 1940 with the object of exercising the necessary government control over the industry through the Sugar Syndicate.

To the development of the sugar industry one of the obstacles has been the imposition of the Excise Duty. Such a duty was levied from 1st. April, 1934 in order to meet the gap in the budget caused by the fall in the central revenue among other factors by reduced imports of sugar and also to check too rapid a growth of the industry under the artificial stimulus of the revenue surcharge of 25% on the protective duties imposed in September 1931. At the same time, the Provincial governments were empowered to fix the minimum prices of the cane in the interests of the grower. Both U.P. and Bihar passed legislation to this effect.

An inquiry was conducted by the Tariff Board in 1937 to determine the extent of protection to be conferred on the industry for the remaining period of protection. The Board reported in 1939. They expressed the view that the industry had more than justified the protection granted to it and, therefore, recommended further protection for 8 years. Accordingly, the Sugar Industry Protection Act 1939 was passed which provided for an import duty of Rs. 6/12/- exclusive of the revenue duty of Rs. 2 per Cwt.

World War II :—

At the outbreak of the World War. II the Indian sugar industry was still grappling with the problem of over-production. There was a large carry-over of sugar approximating over 4 lakh tons at the beginning of 1940-41 season and, as a consequence, the U. P. and Bihar Governments restricted, by means of quotas, the production of sugar in the factories in U. P. and Bihar. There was, however, no check on the production of sugar outside U. P. and Bihar and in the Indian States Since 1942 when the restrictions on the export of sugar outside India were lifted the Government's policy has been one of expanding production. For a few years the efforts succeeded well and despite an acute shortage of such essential raw materials as coal and sulphur and the transport difficulties production recorded an increase in 1942-43 and 1943-44. The production of sugar, however, fell in 1944-45 owing to shortage of cane and transport difficulties. High prices realised for gur also directed, to

some extent, cane from sugar factories to gur making. From now onwards the cycle of falling production started. This was accompanied by reduction of acreage under cane. The prices of cane having been fixed, to some extent raising of food grain crops became more profitable.

Production Difficulties and Controls.

Thus, like other Indian Industries the sugar industry also shared production difficulties. Production is now showing a continuous tendency to fall for the last few years. Production in 1946-47 was only 10,77,000 tons as against the peak production of 12,49 000 tons in 1939 40. In December 1947 the Government of India decontrolled sugar which had been controlled and rationed from 1942 The manufacturers as a result were placed in an advantageous position due to the consequent rise of prices. But the prices soared very high and a sugar-scarcity was created through the cornering of supplies. The government was finally compelled to reimpose control and rationing. There are several factors responsible for the recent decrease in the production of sugar. Floods have been continuously dislocating production of cane. In U. P. and Punjab certain cane diseases destroyed a large part of the crops In addition, there have been serious labour troubles. The supply of cane to the factories has considerably fallen due partly to the shrinkage of acreage and partly to the diversion of cane to gur making in respect of which control has generally been ineffective. The gap between the production and consumption, despite the seperation of Pakistan in respect of white sugar had considerably increased during the war and had been estimated at about 5 lakh tons in 1949. The government of India has decided to import 10·5 lakh tons of Sugar into the country a part of which has already come to the country. The Sugar Panel appointed by the Government of India in 1947 has taken two major decisions *viz*, an increase in sugar-cane production and the establishment of additional units and their location. The production target has been fixed at 18 lakh tons as against the normal production of 10 lakh tons. Twenty new factories were initially allocated to different States and 25 more were so allocated later on.

THE CONCLUSION :—

The Indian Sugar Syndicate has come to a great deal of criticism of late. The Governments of U. P. and Bihar have withdrawn recognition to it and the Syndicate has been wound up. Meanwhile a Tariff Board inquiry was made with a view to examine whether the protection to the industry should be continued and how far and in what manner imports of sugar should be allowed to meet the present scarcity.

The Board has not thought it desirable to recommend further protection in view of the fact that prices of sugar are

already high and imports are difficult. However, in view of the fact that the cost of production of sugar in India is high as compared with other sugar-producing countries, some restrictions on imports of competitive nature are desirable.

It is a pity that even often after 18 years of protection, the industry is still unable to stand on its own legs. The cost of production in India is still the highest of all the sugar producing countries. It must be admitted that the progress the industry showed in the early period of protection has not been maintained. The fact is that unless the quality of the cane is improved and its yield per acre is considerably increased and unless milling efficiency goes up and increased use is made of the by-products to lower the overhead costs, our sugar industry will not be able to face world competition. The sugar price in India is more than double the world price. The industry on this account requires protection. But it will be necessary during the period of protection to fix the price of sugar and of cane and limit the dividends so that none of the party is able to exploit the other. Partition has lowered our home demand by 2½ lakh tons and it should not now be difficult for us to adjust our production to our domestic demand atleast. It is gratifying to note that in 1951-52 the estimated production is expected to go up inspite of the fact that abundantly great importance has been given to food production. What we need most is the development of better varieties of cane and the control of cane diseases. It must be expected that with the development of irrigation in the near future cane production must increase. There is one more fact which requires consideration. The indigenous methods of extracting juice from the cane and of manufacturing gur and *khandsari* sugar are very wasteful. Introduction of power-driven crushers and the training of indigenous *karigars* will go a long way to lead to improvement in these directions. The 1949-50 production of 9·75 lakh tons increased to 11·2 lakh tons in 1950-51 season.

Suggestions for further reading :—

1. Indian Economics : Dewett and Singh.
2. The Evolution of Indian Economy : K. K. Sharma.
3. Reports of the Tariff Board (Sugar) 1931, 1938 and 1947.
4. Report of the Indian Sugar Committee, 1924.
5. Report of the Sugar Commission of 1940.
6. The Indian Fiscal Policy : B. P. Adarkar.
7. Sugar Control Acts, U. P. and Bihar.
8. The Decisions of the Sugar Panel, Government of India.
9. Memorandum of the Indian Sugar Syndicate.

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THE COTTON TEXTILE INDUSTRY IN INDIA

Synopsis :—

1. Introductory—cotton trade of India is very old, muslin of Dacca and calicoes of Calicut have been very famous ; the opening of the sea-route to Europe gave great stimulus, the American Civil War made the Indian cotton trade very profitable.

2. Emergence of the Cotton Mill Industry—the first mill was erected in Calcutta in 1818, Bombay had its first factory in 1854, Bombay became an important centre due to flourishing trade with China, from 1877 industry spread inland, *Swadeshi* movement accelerated the progress, there was further progress during the American Civil War.

3. Progress in the 20th. Century—there was keen competition from Lancashire and Japan, nationalism helped the industry, there was depression in 1907 and a recovery when the war started ; cessation of imports and war demands caused prosperity during the First World War, the period after the war saw a great depression, 1923 was the worst year and in 1925 excise duty was suspended.

4. Protection to the Industry—the industry was first of all surveyed in 1926, the Tariff Board recommended import duties and bounties on higher couts of yarn, in 1930 the Cotton Textile (Protection) Act was passed, in 1931 the depression compelled the Govt. to raise duties ; protection was reviewed in 1932, 1934 and 1935, an amendment was made in 1939 as a result of Indo British Trade Agreement wherein further preference was given to British goods.

5. Effects of World War II—the industry was in difficulties when the war began, after 1941 things improved, war demand and lack of imports led to great progress, handloom production also increased ; the Tariff Board of 1947 recommended withdrawal of protection and abolition of duty on yarn.

6. Progress Reviewed—there has been great expansion in the industry, after 1944 production declined ; the present position is still difficult, lack of plant replacement, raw cotton and other raw materials has created difficulties, only recently it has been possible to procure more cotton from within and without ; there has been improvement in import of machinery, etc.

7. The Conclusion—the need for expanding the industry is great, our cotton textiles are finding new and important markets, production of raw cotton has recently increased, the Plan leaves the industry to the private sector.

Introductory :—

India has been the home of the cotton trade from the earliest times. Indian cotton known as white wool was known to the ancients. Indian cotton cloth had an extensive market in the countries of the Middle East and the Far East Even when the sea route to Europe had not been discovered our cotton cloth was known to the West. The Dacca muslin woven on the hand loom has been acclaimed throughout the world as the finest, the human skill can produce The name Calico comes from the fine woven goods of Calicut. In fact, in the remote past, we were exporting both the cotton and the cotton cloth. The position continues even upto this day.

Opening of the Sea route to Europe :

The opening up of the sea route to Europe gave a great stimulus to the exports of Indian cotton and cotton textile goods During the American Civil War the cotton textile industry of Lancashire in England had to face a great scarcity of cotton. Shipments from America could no longer be had. It was forced to buy Indian Cotton. It is estimated that at the outbreak of the American Civil War the exports of Indian cotton was only to the tune of 528,000 bales which had been increased to 973,000 bales during the last year of the war. The cotton trade during the American Civil War brought into the country surplus wealth valued at £ 92 million Since then, the cultivation of Indian cotton, despite interruptions by famines has registered an increase except during the period of World War II. Bombay, Punjab, Madhya Pradesh, Hyderabad and the Uttar Pradesh are the principal cotton producing areas in the Indian republic.

EMERGENCE OF THE COTTON MILL INDUSTRY :—

The manufacture of cotton piece goods in India, however, consisted solely of hand-spun and hand-woven cloth. As is natural the scale of production was small and the use of power had not been developed. Indeed, the Indian Cotton Mill industry in the modern sense was non-existent till 1818 when the first cotton mill was erected in Calcutta. Bombay saw its first mill in 1854 owing to enterprise of Mr. Cowasji Nanabhoy Davar, a Parsee merchant. Bombay virtually became the centre of the industry and a large number of enterprises were made by others. The early development and growth of the industry in Bombay was not so much because of any natural or permanent advantages

as due to the credit and transport facilities. The temporary growth of market in China which Bombay was in a favourable position to supply also contributed to the growth of the industry there. From 1877 onwards the industry began to expand far inland. Nagpur, Ahmedabad and Sholapur became important centres of the industry. By this time the Chinese demand had fallen away and the industry's location was influenced by such economic factors as the nearness of raw materials, plentiful labour and large marketing centres. The Swadeshi movement also helped to spread the growth of the industry in the interior of the mainland. Later on, with the development of factory legislation in British India, a tendency on the part of the industry towards migration to some of the Indian States where the administration of factory laws was more lax, became visible.

From 1860 to 1865 marked progress was witnessed in the development of the industry partly because of the huge profits made during the American Civil War and partly because of the advantageous position regarding export to China which the industry enjoyed. Between 1865 and 1871, there was a set-back occasioned by the financial crisis at the end of the Civil War in America. But gradually with the restoration of credit and financial stability the progress was resumed and new markets were developed in Japan, Straits Settlements and Arabia. In 1893, the Government of India, however, decided to close the Indian mints to the free coinage of silver. This immediately disturbed our foreign exchanges and dislocated our trade with the silver standard countries of China and Japan. The exports of cotton, twist and yarn, declined from 244 million lbs. in 1899–1900 to 193 M. lbs. before 1914 and 103 million lbs. during World War I. The tendency continued right upto 1938-39 when the exports were only 38 million lbs. although in the same year the total production of yarn in the country was 1,303 million lbs. In the beginning, never-the-less, Indian industry was generally devoting more attention to spinning rather than to weaving. With the declining trade in yarn and with the expansion of domestic market weaving became a more important activity.

PROGRESS IN THE 20TH. CENTURY :—

Right from the beginning, the cotton textile industry has been an eye-sore to Lancashire industry in England. Such interests in 1878 prevailed upon the Government of India to remove the import duties on the imports of cotton textile goods in India. In addition, to neutralise the effects of the import duties levied for revenue purposes, countervailing excise duty was levied on the Indian manufactures. The hostile policy of the government coupled with exchange

dislocation and the consequent development of the industry in China and Japan stunted the growth of the industry. The Swadeshi Movement, however, afforded a temporary stimulus during 1905 and 1907. With the end of 1907 the troubles came. The Chinese and the Japanese markets were practically closed while there was a considerable shrinkage of the domestic market. The next three years were very difficult ones for the industry, the hardships having been increased by the enhancement of the excise duty. Adverse conditions persisted with brief spells of partial recovery until 1917 when the boom arising from the Great War set in. It lasted upto the year 1922.

World War I and its Aftermath.

During World War I the prosperity was caused mainly by the cessation of imports from foreign countries. The industry experienced a period of unprecedented progress. The capital investment in the industry increased from Rs. 20.84 crores to Rs. 40.98 crores between 1917–18 and 1921–22. Under the influence of the soaring prices, the mills were working to their full capacity. Dividends were very high being 40.1%, 35.2% and 30% in 1919, 1920 and 1922 respectively on the paid-up capital.

This boom was followed by a severe depression in the industry. The slump was the greatest in Bombay. The fierce competition from Japan, not only in the markets abroad but also in the domestic markets, created serious problems for the industry. Again, inside the country itself, there was a considerable shrinkage of demand, partly on account of the stoppage of military requirements and, partly, on account of the low purchasing power in the hands of the agricultural population. The depression in India was indeed a part of the world depression. Violent fluctuations in the price of cotton caused by the fast changes in the price and supply of American cotton created a very embarrassing situation. Probably the worst year for the industry was 1923. The depression caused a renewal of the demand for the removal of excise duty on cotton cloth and yarn. At the representation of the Mill Owners Association, the excise duty was suspended in December 1925 and it was finally abolished in March 1926 to be levied again after a short period of time.

PROTECTION TO THE INDUSTRY :—

In the meanwhile, the principle of Discriminating Protection had been accepted and the cotton textile industry was surveyed first in 1926 when it became evident that the industry was not in a satisfactory condition particularly in Bombay. The Tariff Board reported in 1927 that the condition had deteriorated not so much by external competi-

tion as by unhealthy internal conditions. It was also due to the unfair competition from Japan and was, in addition, just a part of the world depression. The Board recommended a large number of measures for securing internal and external economies for the industry. By way of protection the Board recommended raising up of the import duty from 11% to 15%. In addition, it recommended bounty on the spinning of higher counts of yarn and the exemption from the import duties on cotton textile machinery and mill stores. On protests the Government of India finally agreed to the imposing of 50% *ad valorem* or 1¾ annas per lb. import duty on yarn upto March 31, 1930. The duty on machinery and mill stores was also removed.

This, however, did not ease the situation to any extent. Strong protests continued to be made against unfair competition from Japan intensified through inferior labour conditions in Japan and depreciation of Yen. The Government finally appointed Mr. G. S. Hardy, Collector of Customs, Calcutta, to make an enquiry and submit his report. Mr. Hardy supported the contention of the mill owners and, in April 1930, the Govt. had to pass the Cotton Textile Industry (Protection) Act. The Act imposed a general *ad valorem* duty of 15% and also a minimum specific duty of 3½ as. per lb. on plain grey cloth. A special additional duty of 5% was imposed on all non-British imports of cotton goods, introducing thereby the ever denounced principle of Imperial Preference. In March 1931, the depression compelled the Government to raise the duties. The budgetary deficit was great and a 25% surcharge was levied on all duties. In the meanwhile, the Yen had been further depreciated and, as a safeguard, duty on non-British goods was further enhanced. It became 50% *ad valorem* in August 1932 and 75% *ad valorem* in June 1933.

Protection Reviewed.

A second enquiry was conducted by the Tariff Board of 1932 and the operation of protective duties imposed in 1930 was extended upto October 1933 which was again extended upto 30 April, 1934 pending a commercial agreement between India and Japan. At last the Indian Legislature passed the Indian Tariff (Textile Protection) Amendment Act, 1934 in April 1934. The provisions of the Act were based on the report of the Indian Tariff Board, the Indo-Japanese Trade Agreement and the unofficial agreement between the Lancashire and Indian Textile interests (the Mody-Lees Pact). This Act imposed a duty of 50% on cotton piece-goods of non-British origin and also a minimum duty of 5¼ as. per lb. in the case of plain greys. The life of the Act was limited upto 31 March 1936. A special Tariff Board in 1935, however, recommended a 5% decrease in

the duty on British piece-goods while keeping the duty on yarn in tact.

The Indian Tariff (Third Amendment) Act (1939) passed as a result of the Indo-British Trade Agreement granted further preference to the British goods. The duty on such goods was reduced to 17½%—a reduction of 2½% in the case of printed goods and 15% on all others. In addition, import quotas were granted to U. K. At the same time, the period of operation of protective duties on cotton piece-goods was extended upto 31 March 1942. In the meanwhile the World War II intervened and the whole position was changed.

EFFECTS OF WORLD WAR II :—

It must be remembered that the cotton textile industry was passing through difficult times when the war broke out. The effects of the depression of 1929–33 had hardly been obliterated when the recession of 1937–38 started. At the same time, Japan was still playing havoc in the Indian market and the industry was faced with increased costs and heavier taxation while the duty on imported cotton had been doubled in 1939. In the second year of the war specially after July 1941 things improved a little because Japanese imports stopped and the imports from U. K. became negligible. Huge orders were placed by the Government with the textile mills. The Middle East and the Far East theatres of War were fed with the Indian cloth. Prices of cotton goods registered phenomenal increase and the government was compelled to take special steps to safeguard the interests of the consumer. Price control and rationing of cloth was introduced. In May 1946, an interim plan for the cotton industry was announced by the government. The target of mill production within the next five years was fixed at 6,500 million yards per year. Handloom production was expected to contribute 1,500 million yards. This was to raise the *per capita* consumption to 18 yards leaving 800 million yards for export.

Post-War Position.

A new Tariff Board appointed by the government after the end of the war again enquired into the industry's claim for protection. The Board reported in 1947. The Board opined that the financial position of the industry had, considerably improved during the war. But it was found out that the total production of cotton goods was far below the consumption demands and an import of 2000 million yards was necessary to fill in the gap. At the same time, due to the low productive capacity of the cotton textile industry throughout the world, there was no actual or potential danger of foreign competition even from U. K. The Board, there-

fore, recommended the withdrawal of protection to the industry. The duties on cotton goods could, however, be continued for purely revenue purposes to fill in the budgetary gap. The Board was also of the opinion that the duty on yarn was adversely affecting the handloom industry Abolition of this duty was, therefore, recommended. Even revenue duty, in this case was found unjustified.

PROGRESS REVIEWED :—

The protection to the industry was thus, finally abolished. But a review of the progress of the industry will indicate that, on the whole, the expansion of the industry has, to a great extent, been linked up with protection. The number of miles increased from 298 in 1922 to 417 in 1940, the number of spindles increased from 7,331 219 to 10,288,131 and the number of looms, from 134,620 to 202,388 during the same period. Production of cloth increased from 678 million yards to 4,170 million yards from 1904-45 to 1943-44. After this the production declined to nearly 40 0 million yards in 1946 47. There is no denying the fact that the industry has maintained a steady progress despite the jealousy of the U. K. cotton interests and the half-hearted policy of protection.

The Present Position.

The present position of the industry is slightly alarming. As indicated above from 1943 onwards, the production has been declining. The war time boom has not yet crashed yet a large number of difficulties regarding raw materials and machinery are being faced. The war has not been an unmixed blessing. There have been serious labour troubles especially in the post-war period. The wages and dearness allowances have gone up. The cost of production has soared high whereas replacements have been considerably difficult. Thus, the difficulties of the industry have increased during the war.

The position regarding the supply of cotton has become precarious. Ever since 1941, the acreage under cotton crop has been declining. With the entry of Japan into the war our exports of the short-staple cotton completely stopped. There was a crash of cotton prices and the cotton growers were forced to limit the cultivation of this crop At the same time, higher prices were realised from the production of food grains. The cultivators, therefore, devoted more land to the production of such grains. At the top of the whole thing came the partition of the country, This made the supply of raw cotton highly insecure. As against a normal consumption of 45 lakh bales the production in 1948 was only 28 lakh bales while it fell down to nearly 23 lakh bales in 1949. The greatest difficulty

has been that there is a more pronounced scarcity of long staple cotton in the country. Sind and the West Punjab which now form a part of Pakistan have been the chief areas under such cotton. Unfortunately, our relations with Pakistan have been highly unsatisfactory with the result that normal trade between the two countries has been impossible. The effort of the government of India to import cotton from Egypt completely failed whereas they have only been partially successful in respect of Sudanese cotton. There has been some improvement in the cotton position of late. The domestic production in 1950 was 25 lake bales and in 1951 it is estimated at 32 lakh bales.

Import of Machinery.

Regarding the imports of textile machinery, machine parts and essential raw materials the position has not been very much different. It has been argued that during the War days our textile industry had to bear a lot of strain because every mill was working to its utmost capacity. Depreciation of plants has been, therefore, very rapid while replacements could not be made. Along with it, there has been felt the dearth of technical personnel and experts. The Indian Textile Delegation which visited England to secure machinery and replacement met only with a partial success. As a result of it a joint enterprise between Indian and British manufacturers has been launched under the name of the National Machinery Manufacturers Ltd. The authorised capital of this enterprise is Rs. 5 crores open to subscription by the Indian Textile Mills to the extent of 74% and the British interests taking up the remainder 26%. They will be entitled to appoint 25% Directors on the Board. In addition, the Government has contracted for the supply of one lakh spindles from Japan and more textile machinery from Czechoslovakia. Technical experts have been imported from Japan and Western Germany.

THE CONCLUSION :—

That the need for expanding the cotton textile industry in the country is great requires no proof. The Bombay Plan has estimated the minimum requirement of cloth at 30 yards per person whereas the present *per capita* consumption varies from 16 to 18 yards. There is naturally a vast scope for the expansion of the industry for domestic market itself. Apart from this, the cotton textile goods are one of the main sources of earning foreign exchange for the country. We have got extensive markets in Indonesia, Siam, Burma, Ceylon, the Middle East and East Africa. Of late, our textile goods have found a market in the U. S. A. itself. Next to tea, cotton textiles are likely to be our chief items of export. It is gratifying to note that serious efforts are being made by the

government to expand the industry and to raise the production. Cotton cultivation is being pushed up. According to Sir Datar Singh production in 1950 was 20% more than in the last year while in 1951 it will increase further. Both the acreage and yield are being increased whereas imports of cotton are being expediated. We have, however, not been able to solve the problem of cloth satisfactorily. There is a serious danger of competition from Japan especially in the markets of the Far and Middle East as the Japanese Peace Treaty has been signed. Under the First Five Year Plan, the cotton textile industry has been left to the private sector and all that is aimed at is the restroration of nearly the pre-war levels of cloth consumption.

Suggestions for further reading :—

1. The Indian Fiscal Policy : B. P. Adarkar.
2. The Indian Tariff Problem : H. L. Dey.
3. Reports of the Tariff Board on the Cotton Textile Industry.
4. The Report of the Fiscal Commission.
5. Imperial Preference in India : B. K. Madan.
6. The Indian Year Book, 1950.
7. The Lees—Mody Pact.
8. Text of the Indo-Pakistan Trade Agreement, 1951.
9. Indian Economics : Jathar and Beri.

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THE INDIAN JUTE INDUSTRY

Synopsis :—

1. Introductory—the first power-loom was introduced in 1859 the industry expanded rapidly and paid high dividends, between 1885 and 1894 progress was slow later on upto 1900 it was rapid again, up to the Great Depression the industry remained the exclusive concern of the Europeans; progress continued unabated right upto 1930, the World War I gave great stimulus.

2. The Great Depression—there was a severe set-back to the industry, demand for products was drastically curtailed, hours of work were reduced and many looms were sealed, recession set in 1938 and special measures had to be taken by the Government, the mills also combined to the reduce the output.

3. The World War II—the war brought great demand from overseas, production expanded rapidly, after a set back in 1941, demand increased but coal, transport and power problems arose, in June 1943 huge U. S. orders came, the Indian Central Jute Committee has done useful work.

4. Position of the Industry—the industry enjoys a monopolistic position but of late competition from substitutes and some enterprises in Europe has been noticed, tho demand for jute goods is connected with agricultural production, the search for a substitute has not yet been successful.

5. The Effect of Partition—India was deprived of 71% of the jute acreage and 72% of raw jute production, the Indo-Pakistan tension has continued and trade agreements have not worked well, a new agreement was signed in 1951, we have increased our jute production to such an extent that we are now virtually independent of supplies from Pakistan.

6. The Conclusion—the problem of the industry continues to be of excess capacity, the industry is being run on efficient lines, for prosperity we must make reorganisation and must ensure markets, cheapness of the jute products is essential, the danger from Pakistan is not very formidable.

Introductory :—

Early History.

Considering its present dimensions, the jute industry in India is of a very recent origin. It was at first a handloom industry although in 1850-51 the exports were valued at Rs. 21,52,78-. The first jute mill in Bengal was started at Rishra in 1855 and the first power-loom was introduced in 1859. Its original outurn was only 8 tons per day although at present it has an outturn of about 5,500 tons.

The Borneo Jute Company began to manufacture in 1859. To this company is due the credit of introducing the power loom for jute cloth. In 1872, after tremendously increasing its capital and production the company was converted into a limited liability company now known as the Barnagore Jute Factory Co. Ltd. Three other mills followed in quick succession in Gouripur, Serajgunge and India Jute Mills. Unusual prosperity was enjoyed by the industry in the beginning. The Barnagore Company paid dividends of 25% in 1873, 20% in 1874 and 10% in 1875. The industry expanded rapidly. Thirteen new companies were started and the total number of looms increased from 1,250 to 3,500. This was too much of a strain for the new industry and for ten years after 1875 all the Mills had a grim struggle. Many of the newly started mills had to wind up. Between 1875 and 1882 only one new mill was put up. By the end of 1885 four more mills were set up increasing the number of looms to 6,700. Between 1885 and 1894 the expansion was slow and only one new mill was set in motion. The growth was however rapid between 1896 and 1900 when ten more mills were started. Since 1885 a tendency has been discernible towards a larger output of hessian cloth than that of gunny bags. Between 1877 and 1913 while the sacking looms increased from 2,950 to 17,750 the hessian looms increased from 910 to 22,603. A notable feature of the industry, however, remained that it was purely European owned. Indian owned mills were started only after the Great Depression.

Progress Before 1929.

The record of the industry since its establishment upto the beginning of the Great Depression has been one of almost uninterrupted progress. Every decade showed an increase in the paid up capital invested in the industry. In 1901-2 there were only 36 mills with a capital of Rs. 435 lacs plus £ 1,741,000. These possessed 16,119 looms and 331,382 spindles and gave employment to 114,795 persons. The European War of 1914-18 gave a great stimulus to this industry as jute gunnies were greatly required for war purposes and the industry paid fabulous dividends. The

number of mills increased to 89 in 1923–24 and the capital invested rose to about Rs. 18 crores and £ 2·13 millions. In addition to this, the Americans had invested $ 17 million in this industry. The number of looms and spindles rose to 49,038 and 1,043,417 respectively and the number of persons employed went upto 329,700. In 1931–32 there were 103 mills with a total capital of 2,361 lakhs of rupees operating 61,400 looms and 1,200,500 spindles and employing 276,800 persons. In 1935–36 the number of Jute mills was 104 and their paid-up capital amounted to Rs. 20 crores plus £ 2·5 millions. There were 63,724 looms and 1,279,316 spindles in operation and 277,000 persons were employed. The consumptionof raw jute by these mills had come upto 6,022,927 bales in the same year.

THE GREAT DEPRESSION :—

The jute mill Industry had a great set-back during the Great Depression. It suffered from declining prices, over-production leading to the accumulation of huge stocks at the principal consuming centres, frequent labour troubles and the growing internal competition. There was a serious decline in demand for jute goods from abroad. During the period, the policy of curtailment of production was continuously in force. The members of the Indian Jute Mills Association agreed in 1931 to work 20 hours a week and to seal down 15% of their looms. This, however, was not as successful as was expected. The fact was that there were mills outside the Association who refused to endorse and follow the policy and who created a serious internal cut-throat competition. The Association mills were compelled in 1935 to reduce percentage of looms sealed to 10 and finally the output restriction scheme completely broke down as no agreement could be reached with the non-Association mills who imposed no restriction either on the hours of work or on output. The year 1937 was the most critical year for the industry and in 1938, business recession again set in. Indeed the industry seemed to be heading towards a crisis. The provincial government of Bengal discovered that the whole economy of Bengal was in danger of breaking down. The cultivators of jute had been put to great hardship. The government, therefore, by an Ordnance issued in September 1938, assumed control over the industry and limited the hours of work to 45 per week for all the mills.

The non-Association mills gradually recognised that the industry was now faced with a permanent danger of governmental interference. A supplementary agreement between the jute mills in which the Association mills also participated was concluded in July 1939. The agreement provided for the making of 45 hours week compulsory for all the mills and the sealing down of 20% of hessian and $7\frac{1}{2}$% of

sacking looms by all the mills. All these measures along with the general crash of prices of the raw jute adversely effected the Bengal jute grower. The Provincial Government, therefore, had to issue two more Ordinances in August 1939 for fixing the minimum prices of raw jute and hessian.

THE WORLD WAR II :—

The outbreak of the World War II brought a tremendous overseas demand for all sorts of jute goods and pulled the jute industry out of the acute depression. Speculation in jute developed and there was a large increase in the prices of both raw jute and the jute manufactures. The Government of India, through an Ordinance, suspended some of the provisions of the Factories Act. The Government of Bengal also postponed the operation of the Jute Regulation Bill of May 1940 fixing the minimum and maximum prices of raw jute and hessian in the futures market. The restrictions on hours of work were withdrawn and mills went into full production with 60 hours week. Monthly production increased from 90,700 tons in September 1939 to 125,700 tons in March 1940. Out of the total production of 1,280,400 tons in 1939-40, 1,098,725 tons were exported. Indeed, for a time, the industry seemed to have everything for the best, but as the first year of war rolled on, this prosperity received a check, due to a fall in sand-bag orders, which had been the main reason for the rise in prices. The market price showed a downward tendency. To arrest it, the working hours were reduced from time to time. The downward trend in prices was quite serious in the beginning, so much so that, during the first 8 months the prices declined by about 515% but, later on, this decline was checkmated by large sand-bag orders, restrictions on the jute crop and the increased interest shown by foreign Govts. in jute manufactures. During 1942, problems like shortage of coal, transport difficulties, power problem, and reduction of foreign demand led to suggestions for rationalisation of the industry. Incidentally, the Grady Commission had also recommended a similar course, but the Govt. left the job to the industry itself.

Early in June 1943, the U. S. government placed a huge order for certain jute products at prices below the market prices prevailing at that time. This led the I. J. M. A. to fix maximum price for raw jute, which resulted in a storm of protests from jute growers, so that after a careful consideration regarding control of prices and other related matters, the principle of co-operative control was extended to the industry to operate on the same lines as in the cotton textile industry. The want of adequate coal supplies,

however, affected the industry adversely. In addition, the transport difficulties created a serious problem.

An Indian Central Jute Committee had been constituted by the Government of India in 1936. The Committee includes representatives of the trade and agricultural interests and the provincial governments of Bengal, Bihar and Assam. The functions of the committee include agricultural, technological and economic research, improvement of crops, transport facilities, marketing and the distribution of relevant information on jute. Much useful work has been done in all these directions since the formation of the Committee.

POSITION OF THE INDUSTRY :—

One of the curious feature of our jute industry is the almost monopolistic position which it enjoys. It has had to face only the internal competition. Great Britain has been the only country which manufactured jute goods outside India for a number of years. Dundee in Scotland is the principal centre. Of late, however, some of the continental countries were also found interested in establishing jute mills. In India herself Bengal enjoys a virtual monopoly. Undivided Bengal used to grow and consume in her mills nearly $\frac{2}{3}$ of the total jute produced. The production of jute goods in Bengal was at one time twice as great as the total manufacture of such goods in the rest of the whole world. The demand for jute depends upon the volume of agricultural production throughout the world, jute manufactures being required for moving agricultural produce from one place to another in the course of internal as well as international commerce. A favourable agricultural season in India leads to a shrinkage of export of jute manufactures as the demand for packing materials increases within the country itself for moving the large volume of crops. A fall in the external production, on the other hand, adversely affects the demand for exports. The search for a substitute for jute has not yet met with any marked success and indeed new uses have been found for jute.

THE EFFECT OF PARTITION :—

The partition of the country deprived India of 71% of the total jute growing acreage and 72% of the aggregate jute production. Soon after, the Pakistan Government started the battle for jute on account of which confusion has continued to prevail in the industry. According to the Inter-Dominion's Agreement of May 1948 Pakistan had to supply to India 50 lakh bales of raw jute annually. The agreement however, was not honestly carried out. After the no-devaluation decision a complete stalemate of trade between India and Pakistan has occurred. Barter trade agreements

with Pakistan for the supply of raw jute and raw cotton were contracted. The Government of Pakistan, however, refused to send the contracted amount. Even the jute consignments already paid for were detained and the Assam jute passing through Pakistan was detained in transit. Now, of course, all such jute has been released and sent to India. But the earlier Inter-Dominion Trade Agreement expired on the 30th of September, 1950 upto which it had been extended. The Government of India decided not to trade with Pakistan so long as the par value of the Pakistan rupee was not properly fixed. A new Indo-Pakistan Trade Agreement has been concluded in 1951. The Government of India has accepted the par value of the Pakistani rupee at Rs. 100 (P) =Rs. 144 (I). Under the new agreement, Pakistan has agreed to supply India with greater quantities of jute of which 50 lakh bales have already come till the end of. 1951. This agreement extends upto June 1952. The Government of Pakistan has also been developing the port of Chittagong to serve as an outlet for jute. Markets in Italy, France and certain other foreign countries are being developed. In addition, the Pakistan Government has ordered a large number of jute presses. This means that India must grow enough jute for her own mills. Attempts have been made with great success in this direction. Jute cultivation has been expanded in West Bengal, Orissa, Bihar and U.P. Indeed the manufacture of jute goods has shown an increase even after partition. Production in 1948 was 10·7 lakh tons as against 10·1 lakh tons in 1947. The production was, thus, not below the 1946 figure. The production of raw jute increased to 40 lakh bales in 1950 and to 52 lakh bales in 1951 which makes India self-sufficient in respect of it, as against 20 lakh bales in 1948 and 30 lakh bales in 1949.

THE CONCLUSION :—

The problem of the jute industry has been and, still is, one of excess capacity which explains its policy of restrictionism involving curtailment of hours of-work, output and distribution of profits to mills abstaining from production. Although efficient as compared with most of the other industries, the Indian Jute industry compares unfavourably with its foreign counterparts in Scotland, France and elsewhere in point of productive efficiency. In order to maintain prosperity it must tackle with vision and determination, the problem of reorganisation and must improve its methods of production and marketing and enlarge the variety of its products to suit the diversity of its demand. The industry does not have to fear competition, except from the substitutes, at least for some time in the future. The paper and cotton packing, the flax fibre bags and such other substitutes will vanish only if we can ensure the cheapness of our

jute goods so that the substitutes do not become popular. There is a potential danger from Pakistan but we can probably take the advantage of initial start and can compete successfully with the newly started industries of Pakistan. The increased domestic production of raw jute which, virtually, ensures self-sufficiency must go a long way in putting the industry on its own feet again.

Suggestions for further reading :—

1. The Indian Fiscal Policy : B. P. Adarkar.
2. The Evolution of Indian Economy : K. K. Sharma.
3. The Indian Economics : Dewett and Singh.
4. Report of the Grady Commission.
5. Government of Bengal Jute Regulation Act 1940.
6. Bengal Government Ordinances.
7. Reports of the Indian Central Jute Committee.
8. The Economic Consequences of Partition : C. N. Vakil.
9. The Indo-Pakistan Trade Agreement, 1951.

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THE IMPORTANCE OF COTTAGE AND SMALL SCALE INDUSTRIES IN INDIA'S INDUSTRIAL STRUCTURE

Synopsis :—

1. Introductory—India's industrial past is glorious, our products had extensive market but a gradual and systematic extinction of our cottage industries in the recent years was witnessed.

2. Causes for the Decay of Cottage Industries—they were: withdrawal of court patronage, development of western tastes, the hostile attitude of the British Government, competition from machine-made goods and development of transport; some industries survived because of the caste system, the long traditions, unemployment in the country, isolationism of villagers, adaptability of the cottage workers, the *Swadeshi* movement and the enlightened policy of some Governments.

3. Importance of Cottage Industries—retail trade is an important source of employment, agricultural population lacks proper employment, cultivators cannot find useful jobs in their spare times, they can solve the problem of over-all employment, they solve the problems of industrial dispression and regionalism, even the cost of production can be made competitive and many of the defects of mechanized production can be removed.

4. Realisation of the Role of Cottage Industries—the Bombay Plan recognizes their importance, the N. P. C. gives them much importance, a fusion of them with large-scale production is recommended.

5. Problems of the Cottage Industries—problems differ from industry to industry, general problems are lack of proper finances, lack of organisation, marketing, lack of technical assistance and research, ignorance illiteracy, inefficient methods of production; it is desirable to integrate them with large-scale production, during the World War II such industries revealed their usefulness, they can be a good check to inflation.

6. The Conclusion—the case for their development and improvement is strong, snch industries can produce consumers goods to ensure the success of planning, they can remove the traditional shyness of Indian capital, the principle of cooperation is best suited to them.

Introductory :—

India's industrial past is still a great source of inspiration for all interested in her industrial development. At a time when the West of Europe was inhabited by uncivilised tribes, India was famous for the wealth of her rulers and the high artistic skill of her craftsmen. The decline of her industries which were mostly cottage industries or industries carried on a small-scale makes a very sad and callous reading. A number of factors were responsible for the demolition of this industrial structure of the country.

CAUSES FOR THE DECAY OF COTTAGE INDUSTRIES IN INDIA.

In the first place, it must be remembered that Indian industries prospered under the patronage of indigenous courts. With the consolidation and centralisation of British power these Courts disappeared rapidly and, with the disappearance of their fostering care, the industries disappeared fast. Secondly, a new aristocracy educated on Western lines developed. This had a craze for everything Western. As Vera Anstey remarks, "Richer classes in India began to adopt Western fashion and either purchased Western goods or were content with cheaper indigenous goods sold to Europeans that previously, they could have scorned." The demand for the highly artistic or highly skilled articles, naturally, received a major set-back. Thirdly, the hostile attitude of the British Government at home, combined with a callous behaviour in India, dealt a major blow to our industries. In their desire to develop their own industries and to find markets for their own industrial products, the British Parliament between 1700 and 1829 prohibited the import of dyed calicoes from India and imposed the prohibitive duties of 30% to 80% on other articles. The arm of political injustice, thus, strangled and finally crushed them. The Government of India, in faithful subordination of the British Government, made every effort to flood the Indian market with British goods while, at the same time, discouraging and suppressing the Indian manufacturer. Fourthly, a very important cause was the competition of machine-made goods facilitated and rendered more effective by the development of the means of communication and transport. The old handicrafts in which the craftsman took an inordinately long time in making an article, however beautiful and artistic, were bound to wither away in the face of Industrial Revolution that, had taken place in the foreign countries. Indeed the all round policy of the British Government was to make India a producer of raw materials to feed her own industries and to keep her a useful market for the sale of their own industrial products.

Why some Industries still survived.

The blow dealt to the Indian industries has thus been heavy but still some of the small-scale and cottage industries have managed to survive. This is nothing peculiar to India alone for, even in the highly industrialised countries of West, cottage industries have managed to linger. In India, however, there have been certain special causes for the continued existence of such industries, which can be enumerated as below:—

(1) The presence of the caste system is responsible for the existence of caste occupation even when they have no longer remained paying.

(2) The long and honourable traditions behind a craft, coupled with inertia and immobility of the worker, have induced him to carry on the craft.

(3) The universal unemployment or under-employment in the rural areas, combined with the lack of alternative openings, has made the worker either unwilling or unable to leave his hereditary occupation. In a country where 65% of the people obtain only seasonal employment they have been continued as a "second string to the bow."

(4) The isolation of villages has not yet been completely broken and many crafts survive either in places inaccessible to machine-made goods or, in view of the fact, that the demand for them is local, fitful or too limited so that they do not lend to machine production.

(5) The ability of the cottage workers to adopt their products to the changing taste of their customers and the patronage offered by the Zamindars and petty chieftains has also helped to continue their existence.

(6) In recent times the Indian States again showed a tendency to patronise the hand-made goods. In particular, the Swadeshi movement and the movement for the use of hand-made goods started by Mahatma Gandhi not only encouraged the existence but actually fostered the growth of such industries.

(7) The Central and Provincial Governments, too, in recent years have given liberal grants for fostering, the growth of cottage industries. Thus, the Congress and the Govt. have been one in their solicitude for the cottage industry worker.

It must be remembered that at the present time all cottage industries are not in the same position. The present position of different industries varies with the degree of machine competition which each had to face. Some crafts like Dacca muslin have died down, some like hand spinning are in a dead-alive condition while still others like hand-loom weaving have shown signs of rejuvenation.

IMPORTANCE OF COTTAGE INDUSTRIES :—

India still remains a country of small-scale production from which the bulk of her population derives its subsistence. The retail trade, agriculture and numerous industrial arts and crafts offer employment to millions of people. Dr. Mukerji estimated in 1941 that handloom alone employed 5 million people which was equal to the number employed in all organised industries. The importance of cottage industries, thus, cannot be minimised.

The seasonal character of agricultural employment which leads to enormous waste of labour forcing idleness makes it imperative to develop subsidiary means of employment. Dr. Mukurji has estimated that, in northern India, the cultivator is not employed for more than 200 days in the year while, in the slack season, the employment is just for one or two hours a day. According to Dr. Salter, the cultivator in South India is occupied only for five-twelth of his working time. The Bengal jute and rice grower, as Jack has pointed out, has 8 to 9 months of idleness. The Royal Agricultural Commission estimated that there is no work for two to four months in the year while the U. P. Banking Enquiry Committee found out that the employment is never for more than 200 days a year.

Most of the cultivators' spare time is spent in idle gossip, litigation, marriages and songs. Therefore, if the cultivators' economic position is to be strengthened he must be frugal and industrious and he must have subsidiary occupations in the shape of rural and cottage industries. Japan, France, Germany and Italy have had their subsidiary industries. Mixed farming in western countries keeps the agriculturists occupied throughout the year and dairying, pig raising, poultry-farming etc. are usually added to crop production. The problem in India is to find out such industries as can be carried on by the cultivator without undue interference to his normal work and which, in addition, can be run by unskilled manual labour of the villager and his family with the help of the meagre capital he possesses. The grinding poverty and growing burden of indebtedness, even in these days of good administration and modern means of transport and communications, makes the case for cottage and small-scale industries all the more strong.

The importance for the develpment of cottage and small-scale industries in Indian can also be emphasized from another point of view. It is argued that even a four to five-fold increase in the size of our organised large-scale industries is not going to solve the problem of huge unemployment in our country because we can, at the most by that measure create additional employment only for a few tens

of millions. Even the vast development of transport, communication and public utility services is not expected to solve the problem. It is significant to note that every plan of economic development in India has emphasized the need for keeping the agricultural character of our economic life unchanged. This means that the only effective way of solving the problem lies in the rapid, co-ordinated and simultaneous development of cottage industries along with large-scale production.

Besides, development of such industries has a peculiar significance in the country of Mahatma Gandhi with his emphasis on small-scale production and his abhorence of heavy machinery. Cottage industries offer a far greater scope to the development of inherent talents and aptitudes in humanity. They try to remove the evils of mechanisation where man loses all moral and spiritual values and becomes a slave of the machine. Again, the cottage industries do away with evils of modern industrialism in the shape of over-crowding, concentration of industries and capital and the huge problems of public health, housing and morality.

Even in the case of large-scale industries a tendency towards industrial dispersion and regionalism is developing. It is significant to notice that these problems are conspicuous by their absence in the case of cottage industries where they do not arise at all. This means that, through them, advantages of industrialisation can be achieved without the attendant evil effects.

It is often argued that cottage industries suffer from certain disadvantages, the most important of them being the higher cost of production. It is on this account that they cannot compete favourably with the large-scale industries. Therefore, unless we want to have a closed economy, we shall find that our industries go out of existence through competition from the machine made goods from abroad. This must, however, be said in this connection that nobody recommends a wholesale programme of cottage industries alone for India. The emphasis is only on the fact that the cottage industries must be given their proper place in the industrial structure of the country. We cannot dispense with the large-scale industries. What is advocated is a proper fusion of the large-scale and cottage industries in any future scheme of industrialisation. Regarding the question of high cost of production, two important considerations must be borne in mind. In the first place, experience of the working of cottage industries in Japan and China falsifies the assumption of high costs. The use of cheap electric power in cottage industries has, in fact, made their costs competitive to large-scale production. In the second place the low money cost in large-scale industries

must be counter-balanced by the high social cost in such industries. The social cost when measured in money in the shape of public health, sanitation, housing services etc. is definitely much lower in the case of cottage industries.

REALISATION OF THE ROLE OF COTTAGE INDUSTRIES :—

In fact, the importance of the cottage industries in India has been recognised Even the authors of the Bombay Plan were convinced of their usefulness. "It is," they write, "an essential part of our plan for the organisation of industries that adequate scope should be provided for small-scale and cottage industries along with large-scale industries. This is important not only as a means of affording employment but also of reducing the need for capital, particularly of external capital, in the early stages of the plan. It is difficult to define the considerations on which the choice between large and small-scale industries and cottage industries should be determined. The factors involved in the choice are numerous and often conflicting. But generally, it may be stated that while in basic industries there is little scope for small industrial units, they have an important and useful place in consumption goods industries where their function is in many cases complementary to that of large units."

The Indian National Congress has been a great champion of cottage and small-scale industries and the Congress Government accepts the principle of their development as a matter of creed. The National Planning Committee has thought it necessary to make a special study of the cottage (or small-scale) industries. According to it a small-scale (or cottage) industry is one as distinguished from large-scale industries equipped with power driven machinery and working for a large market, national or international. The Committee has noticed the serious disadvantages of this obsolete form of production represented by handi-crafts. It has recognised that they involve needless waste of labour, handicap the country in foreign trade and condemn the adult worker to needless toil for a limited gain, and for a permanently low standard of living. "But," the Committee reports, "the dangers of industrialism and the excessive concentration of new wealth produced by intensive industrialisation of the country, as experienced in Western countries, have persuaded the most socially inclined minds to accept this uneconomic ideal." The Sub Committee on Cottage industries has recommended a fusion of the large scale modern industries and cotttage industries or handi-crafts. The details of this co-ordination between the two were to be left to the Planning Commission. The Government has evolved the principle of cooperative production and cooperative marketing of the products of cottage industries with

the financial, advisory and technical assistance of the Government.

PROBLEMS OF THE COTTAGE INDUSTRIES :—

It now seems desirable to study in detail some of the basic problems of the cottage industry in the country with a view to suggesting improvements. It is a well-known fact that the difficulties and problems of different cottage industries are peculiar to them yet we can also discover certain common features and general difficulties. There are three important handicaps relating to finance, marketing and organisation. Many of the cottage industries have deteriorated for lack of adequate and cheap credit and grim poverty and indebtedness of the artisans. The result has been that goods are produced only when orders are received along with the raw material or advance money. This impedes steady supply. The artisans in general do not work on their own account. They work for the *Karkhanadars* or the middle men who exploit the neediness of the artisans and who interest themselves only in the production of cheap and ordinary goods in their desire to earn higher profits. This method of financing leads to the payment of higher prices for the raw materials and increases the cost of production. Again, the artisan is forced to sell at lower prices and does not obtain a proper reward for his labour. The need for cooperative credit is, therefore, imperative.

The financial needs of the artisans consist of the purchase of raw materials, working expenses and accommodation between the production and sale of the products. The existing financial agencies are the money lenders, *Karkhanadars* or the merchant dealers, the Cooperative societies and the Government. The joint-stock banks, as a rule, refrain from helping them. The Central Banking Enquiry Committee has recommended increased activity by the Cooperative societies and the Government. The Industrial Cooperation in U. P. and the State Aid to Industries Acts of Madras, Bihar, Orissa and Bengal are steps in the right direction. The rapid development of cooperative societies in the recent years particularly in U. P. and Punjab are expected to yield beneficial results. The principle of Central Aid to such industries has been given a practical shape with the establishment of the Cottage Industries Board.

The lack of proper organisation is another serious problem. This leaves the industrial artisans to the mercy of the financiers. At the same time, this prevents bulk purchases of raw materials and necessary tools and machinery as a result of which the external economies cannot be properly obtained. Again, this makes it difficult for such industries to employ sales agents and push up the sales. In this matter, as in the case of finances, the problem can be solved

through cooperation and state recognition of the cooperative organisations of cottage industries.

As regards marketing difficulties, the lack of a central trading organisation on a provincial and on a national basis has been a chief defect of the cottage industries. Lack of marketing organisation leads easily to the exploitation of these industries by the middle men. The Arts and Crafts Emporiums in U. P. Assam and Kashmir are the attempts in the right direction. The Home Industries Department of Mysore has succeeded remarkably in popularising the village and cottage industry products.

Other difficulties of the cottage industries are lack of technical assistance and research. The Government of India has invited and procured technicians and experts from Japan and has provided training to the displaced refugeés from Pakistan. The Cottage Industries Board is expected to take up the problem of research.

At the same time the lack of education and ignorance regarding the trends of the markets and prices is a serious handicap. The problem can be solved partly through cooperative organisation and partly through such information being supplied by Government agencies.

Yet another difficulty is the 'presence of inefficient and wasteful methods of production and the consequent high costs of production. This can be removed by the introduction of cheap electric power and by the training of the artisans. As our development programmes proceed on and cheap electric power becomes available even in the rural areas the problem is expected to be solved. In this connection this is also essential that better and more efficient tools must be supplied to the artisans. The organisations of cottage industries workers into guilds, as in Kashmir, is expected to yield useful results.

A very necessary step seems to be the integration of the cottage industries with the modern large-scale industries. At the present time the cottage industry stands in isolation always threatened by competition from home and abroad. A coordination between different lines of the industrial chain is badly needed. The raw materials can be worked in the rural areas in small and medium sized units and then brought in a semi-finished state to the big urban centres. By establishing a net-work of small and medium sized industrial units in the heart of agricultural areas we must industrialise the rural areas. The modern conception of regional planning in fact knows no distinction between the rural and the urban or between the industrial and the non-industrial areas. During the World War II the cottage industries received the attention of the Government for the purpose of ascertaining their usefulness in the war effort.

Let the same attitude be maintained by the National Government which realises the emergency nature of the present period in the economic life of the country.

THE CONCLUSION :—

We have noticed above that the case for the cottage industries is specially strong in India. The Government has done-well to recognize their importance. It must, however, be admitted that the Planning Commission has failed to give them their due share of attention. For any plan to succeed in India under the existing conditions of inflationary prices, stability of price level is a minimum condition. The cottage industries by producing consumer goods can sucessfully mop up some of the extra-purchasing power thus ensuring the smooth progress of planning. What is more, they can be instrumental in reducing the hardships on the population during the course of the plan. The traditional shyness of the Indian capital can be broken if the people in the rural and urban areas are provided with lucrative openings for the investment of their small savings. But, in this field, from all considerations, the principle of cooperation appears to be the most desirable.

Suggestions for further reading :—

1. The Economic History of India : Vera Anstey.
2. Report of the Royal Agricultural Commission
3. Our Economic Problems : Wadia and Merchant.
4. Report of U. P. the Banking Enquiry Committee.
5. Report of the Sub-Committee on Cottage Industries, N. P. C.
6. Report of the Central Banking Enquiry Committee.
7. The Bulletins of the Cottage Industries Board.
8. Indian Economics : Jathar and Beri.
9. The Indian Year Book, 1950.

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THE PROBLEM OF INFLATIONARY PRICES IN INDIA

Synopsis :—

1. Introductory—there is confusion regarding the exact meaning of inflation, the best approach is that of Pigou who defines inflation as a phenomenon of rising prices occurring when money income increase faster than the income-earning activity; theoretically there are three stages of inflation, in the last stage it is impossible to cure inflation, when this stage has been reached, money loses all its value and the barter system begins to prevail.

2. Inflation in India—the Government of India took a long time to take official cognizance of inflation, it was discovered only in 1948, there have been various views regarding inflation in India, according to Dr. Rao and Prof. Vakil inflation has already reached the third stage, Mr. Birla thinks that there is only reflation, in 1948 the Government of India sought advice from different parties and bodies to evolve a policy of disinflation.

3. Causes for Inflation in India—they are: huge expansion of currency and credit, the scarcity of goods caused by low production and lack of imports, speculation and hoarding, transport difficulties, failure of price control and rationing policies; in the post-war period, deficit financing, ill-timed development programmes, extra money brought by the refugees, Hydrabad and Kashmir campaigns, devalution and export drive further worsened the situation.

4. Governmental Measures to Fight Inflation—they were: price control, rationing, ban on speculation, public borrowing and grow-more-food campaign; the National Government announced the following:—agricutural income tax, increased savings drive, public borrowing, economy in expenditure, limitation of dividends, stoppage of payment to Zamindars; to increase production, the grow-more-food campaign was intensified, concessions were granted to industries, import and refrigeration facilities were improved and price control measures were tightened up: the Government succeeded in lowering down the rate of increase in prices.

5. The Conclusion—the Government policy failed because of its too much emphasis on price incentive and because of the lack of control over temporary local scarcities, there has been much talk but little work, it is probably desirable to adopt more stringent methods for reducing the currency.

Introductory :—

Before discussing the problem of inflation in India it seems desirable to understand the proper significance of the word inflation itself. There is a lot of confusion not only in the popular mind but also in the minds of those who can claim a knowledge of economics regarding the exact connotation of this term. Generally, a period of high prices is designated as a period of inflation also. But there may not always be inflation when the prices rise. Prof. Pigou in his essay on the Types of War Inflation has defined inflation as a phenomenon of high prices occurring when money incomes increase faster than the income earning activity. From a practical point of view, this definition leaves nothing to be desired. Very simply, the definition only suggests that when prices rise because of a greater increase in money income than in production, the presence of inflation must be inferred. Thus, every rise of prices may not be inflationary although it is true to say that in inflation prices always rise. This point must be clearly understood in view of the panicky associations of the term. If, at any time, there is a continuous lag between the increase of money incomes and production the situation ought to be watched carefully for it is the danger signal for inflation.

Inflation is designated as economic tuberculosis. Experts tell us that like T. B inflation has three distinct stages. In the first stage it is definitely curable while through a drastic treatment of economic ills it is probably curable in the second stage also. In the third and the final stage it is positively incurable and ultimately leads to the collapse of the whole economic structure.

In the case of currency inflation where inflation is caused by the over-issue of paper currency (incidently the present inflation in India is also of this type), the three stages can well be illustrated by a study of the rate of increase of currency and the consequent rise of prices. In the first stage, the rise in prices is less than the rate of expansion of money. If money increases by 20% prices may increase by 5%, 10% or 15%. The second stage begins when the expansion of production consequent upon high prices and, therefore,

high profits stops. In that case the rise in prices is exactly equal to the rate of expansion of money or currency. When such a situation continues for some time and the expansion of currency is continued, people gradually begin to lose confidence in the currency with the result that prices begin to lose every relation with the expansion of currency. The third stage begins when prices rise faster than the currency expansion. Ultimately, money loses all value and barter system begins to prevail. Such a situation is given various names. It may be called super-inflation, hyper-inflation, runway-inflation or the hydra-headed monster of inflation.

INFLATION IN INDIA :—

Turning to India, the situation can best be described in the words of a humourist that during the days of war every activity was brisk and the British Government made the rupee run to keep pace with the feverish war activities. The rupee began to run but, then, suddenly the Britishers left India on the 15th of August, 1947. The rupee did not notice the change, specially as the King's head was still on it and continued to run. Meanwhile, those in India remained busy in killing each other and in flag-hoisting everywhere. But then they somehow noticed that the rupee was running and they called it inflation. Indeed it was in early 1948 that Prime Minister Nehru declared that the problem of inflation in the country was far greater than the Kashmir and Hydrabad problems which seemed so difficult to solve then.

It was indeed a pity that the Government of India took such a long time to discover the presence of inflation inside the country. Economists and financial thinkers had, for long, been cautioning the government to be vigilant. Regarding the extent and magnitude of inflation in India, opinions have differed widely. According to Dr. V. K. R. V. Rao between the six months ending with June 1948 prices rose by about 12 per cent while the currency increased by only 4·7%. This indeed indicated that the third stage of inflation had begun. Prof. C. N. Vakil was also of much the same opinion. Mr. G. D. Birla, on the other hand, maintained that there was no inflation at all The rise of prices was simply reflationary as the economy was recovering from the slump of the pre-war years. At any rate, the Government of India realised the gravity of the situation and, in 1948, invited the representatives of manufacturers, labourers, agriculturists and the political parties to offer their suggestions for improving the situation. Advice was also sought from the notable economists and the Government of India's financial experts. Ultimately, a large many anti-inflationary measures were announced.

CAUSES FOR INFLATION IN INDIA :—

Various have been the causes which led to the soaring up of the prices in the country. The first and, by far the most important of them, has been the continuous increase in the amount of currency and credit money. The total value of notes circulating in the country increased from nearly Rs. 179 crores in 1939 to Rs. 1310 crores in 1948. The total value of advances and bills discounted (credit money) by scheduled banks alone increased to Rs. 414 crores as against Rs. 126 crores during the same period. The general price index number in March 1949 was 370 as against 100 in August 1939. The increase in the currency was necessitated by the increased expenses of the Government to finance the war efforts. To some extent, it was intentional to raise the prices inside the country. In the absence of an increase in production, the only way of diverting some of the goods and services from the civilian use to war purposes was to curtail the civilian demand through increased prices. At the same time, the U. K. Government made extensive purchases in the Indian markets. The payment was made in sterling which was lent out again to the U. K. Government. But on the security of the sterling securities so created more paper currency notes were issued and handed over to the U. K. government to make payment to the Indian sellers. The dollar earnings of India deposited with the Empire Dollar Pool were also converted into such sterling securities which again caused further expansion of paper currency. The increase in the salaries and dearness allowances during the war and in the post war period again necessitated greater finances. The failure of governments' borrowing programmes and the inadequacy of the revenue derived from taxes left the government with no alternative but to resort to currency expansion.

The credit money increased partly because of the continued budgetary deficits during the war and after of the Central and Provincial or State Governments. Increased activity of investment and trade also induced the banks to expand credit.

In the second place, the rise in prices was caused by the scarcity of goods. All kinds of consumers' goods both imported and locally manufactured were and still are, in short supply. In the matter of food supply the shortage became specially pronounced. Normally before the war, India was for some years importing $1\frac{1}{2}$ to $2\frac{1}{2}$ million tons of rice from Burma, Malaya, Siam and Indo-China. During the war such imports completely stopped. At the same time, inside the country itself food production showed a decline. The Government of India, despite the domestic scarcity, exported food grains to Ceylon, South Africa and the Middle East

theatres of war. The food scarcity assumed monstrous proportions and resulted in the great famine of Bengal in 1943. The scarcity has been further aggravated by the creation of Pakistan which now controls the food surplus areas of Sind and West Punjab.

The shortage of manufactured goods was created by the continuous fall in the imports of such goods. The imports even as early as in 1942-43 were only 37.6% of the year 1938-39. As against this a large portion of production in India was diverted to war purposes. Steel, paper, textiles, leather goods, rubber and tea were purchased in huge quantities for war needs. The total purchases are estimated to be valued at about Rs. 2,000 crores.

Thirdly, there was a considerable development of speculation and hoarding. Artificial rise in prices were very often created by the activities of stock exchanges. Gradually, the scarcity psychology developed and the spiral of runaway prices started. Hoarding and the cornering of supplies became a regular and a profitable job during the war. The scarcity psychology induced not only the speculator or the primary producer but also the innocent consumer to lay a stock by.

Fourthly, the transport difficulties and the mal-distribution of goods created a highly panicky situation. The movement of army personnel and equipment made tremendous demands on the railways. The reduced supply of petrol, rubber tyres and motor trucks further complicated the situation. Things could not be moved from surplus to deficit areas. Local scarcities, therefore, became common, which increased all the more due to the lack of proper co-ordination between the Central and the various provincial governments. As a result hoarding, profiteering and speculation increased.

Lastly, the failure of the policy of price control and rationing allowed a free scope to the rising prices. Price control proved a hoax in most of the cases. It became synonymous with the disappearance of the commodity. The administration was lax and corrupt and black-market thrived. Rationing was introduced only for a very limited number of population. The scales of ration have been often lower than the actual requirements of consumption and then rationing and price control have been introduced only in respect of a few commodities. It is argued by many that partial controls are even worse than no-controls inasmuch as they tend to inflate prices in respect of non-controlled articles.

In the post-war period, the deficit financing by the Central and State Governments, the well-intentioned but ill-timed development programmes of the Central and State Governments, the extra amount of purchasing power brought by the refugees from Pakistan, the failure of Governments' control

and production policies and the campaigns of Hydrabad and Kashmir have further aggravated the rise in prices. The devaluation decision in September 1949, neutralised the effects of the anti-inflationary measures while the building up of an export surplus with a view to liquidating the deficit on the balance of trade acconnt has, in the absence of substantial increase in production, caused a further shortage of goods.

GOVERNMENTAL MEASURES TO FIGHT INFLATION :—

The measures adopted by the Government to check the rise in prices consisted mainly of introducing price control (1942) and rationing, imposing of ban on speculation in respect of certain articles, public borrowing, and increased taxation. In addition, the Defence Saving Scheme was inaugurated and propaganda in favour of increased savings was carried on. Side by side, a Grow More Food Campaign to bolster up the agricultural production was put into action. The success of these measures was, however, small and the rise in prices from 1942 onwards continued uninterrupted.

After independence the National Government after hearing the view-points of the various sections of the population including the economists announced a number of anti-inflationary measures. These measures can be classified into two categories viz. those relating to the reduction in the amount of money in circulation and those directed towards increasing the supply of goods inside the country. The former consists of the following :—

(*i*) increased taxation including the authorisation to the State Governments to levy income tax over agricultural incomes above Rs. 500 per annum ;

(*ii*) increased public borrowing through higher interest rates and better savings bank facilities ;

(*iii*) stoppage of further expansion of currency ;

(*iv*) discontinuation of the policy of deficit financing.

(*v*) curtailment of governmental expenditure through economy in the administrative expenses and through the slowing down of development programmes ;

(*vi*) limitation of dividends to 6% ;

(*vii* postponement of payments to the Zamindars and such other claimants for a period of three years.

Attempts to increase production and to introduce better distribution consist of :—

(*i*) intensification of the Grow- More Food Campaign through greater seed, manuring, irrigation and such other facilities and through the starting of food production by the State Governments ;

(*ii*) increasing of the areas under cotton, jute and sugarcane through the extension of the margin of cultivation ;

(*iii*) exempting of the newly started industries from income tax for an initial period of three years ;

(*iv*) postponing the nationalisation of industries for a period of ten years to offer greater inducement to the private businessmen ;

(*v*) increasing the volume of imports of food and manufactured consumers' goods ;

(*vi*) extending the refrigeration facilities for perserving perishable foods ;

(*vii*) eliminating wastage ;

(*viii*) developing state-owned or state-aided industries ;

(*ix*) tightening up of price control and procurement.

It has to be admitted that all these measures have achieved only a limited measure of success. The rise in prices has not yet been really checked. Even the unambitious desire of the government to stabilise the prices at the present level has not yet materialised. This can, of course, be said that the rise in prices has now definitely become slower.

CONCLUSION :—

The failure of the Government's anti-inflationary policy has been due to two definite reasons. Firstly, the basic conception underlying the policy, viz., price incentive to increase production is unsound. It is a hard fact that price-increases have tended to increase trade rather than production in India. Secondly, the government has been unsuccessful in stopping temporary local scarcities which fan up the inflationary psychology The administration of State owned and operated industries has been costly and they have failed to compete with private producers. Above all, natural calamities have seriously interfered with our agricultural production. The government, it seems, has completely forgotten the old saying that 'an ounce of practice is better than a pound of theory.' The fact is, that, inspite of the tall talk, very little has actually been done in the practical field.

It may just be possible that the present situation calls for more drastic measures specially for the reduction of currency, howsoever painful it may be for the public and the national economy. The inflationary psychology is running riot. Freezing down of bank deposits, compulsory saving schemes and a drastic reduction in currency may probably be necessary to cure this abormal psychology. Even the liberal economists sometimes freely talk of suggesting the government to issue currency in which each note holder

will be compelled to accept less than the full present value of his note in terms of rupees.

Suggestions for further reading :—

1. The Monetary System of India : B. E Dadachandji.
2. Our Sterling Balances : C. N. Vakil.
3. Articles in the Independence Supplement of the Hindustan Times dated August 15, 1948 : Dr. V.K.R.V. Rao and Prof. C N. Vakil.
4. From Super-inflation to Devaluation : S. K. Muranjan.
5. Reports of the Reserve Bank of India.
6. Inflation in India : Shenoy.
7. Government Measures Affecting Investment in India : D. K. Malhotra.
8. Types of War Inflation : A. C. Pigou.

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STERLING ASSETS

Synopsis :—

1. Introductory—sterling assets are the liquid funds that have accumulated in London in favour of India, during the war we extended credit to Great Britain, the British and American Government made huge purchases for which sterling securities were handed over to the Reserve Bank

2. Accumulation of Sterling Balances—the payment for goods and services purchased by the allies from India was made in credit, the Reserve Bank issued rupee notes on the security of such sterling, the sterling reserves of the Bank increased tremendously, expansion of currency caused the soaring of prices which in the absence of counter-checks continued to rise.

3. Disposal of the Sterling Balances—first of all the debt that India owed to U. K. was gradually liquidated, we thus effected a saving on account of the interest payments to foreigners, the sterling balances were built up at a huge sacrifice, the suggestions to scale down sterling balances were made but the British Government removed all suspicions.

4. Indo-British Agreement—first agreement was concluded in August 1947, under the agreement the Reserve Bank opened two accounts No. 1 and No. 2, a delegation from U. K. visited India in January 1948 and the agreement was extended upto June, 1948.

5. Utilisation of the Balances—in 1947 and 1948, the sterling balances were utilised only to a small extent, in July 1948 annuities were purchased for financing sterling pensions, defence installations and military stores, payment of the share of Pakistan was also made, India's adverse balance of trade necessitated heavy withdrawals, open general licenses led to great imports.

6. The New Indo-British Financial Agreement—a new agreement was signed in July 1949, the terms surpassed the most optimistic expectations in India, if India draws only according to the schedule, only £ 360 million will be left at the end of 1951, we can utilise the same for purchasing consumer's goods and British investments in India.

7. The Conclusion—devaluation has reduced the value of freely convertible sterling releases by 30%, like England we have tried to secure imports from the soft currency countries, fortunately Britain is now better able to meet our needs, in the First Five Year Plan sterling balances are expected to be utilised as external finance.

Introductory :—

Sterling assets mean the sterling balance or liquid funds that have accumulated in London in favour of this country because the liquidation of such credits in gold or dollar was not possible during the currency of war as it would have embarrassed Great Britain's war effort.

It needs no explanation that Indian imports during the war dropped considerably because of certain limitations and restrictions imposed by the Government of India which *necessarily resulted in a continuous excess of exports over* imports on private account. The British Government purchased large quantities of manufactured goods and also agricultural produce from this country. The defence services maintained by the American Government in this country also meant huge expenditure on India's products. All this led to the huge accumulation of India's claims against the allied nations, as His Majesty's Government not only preferred to pay India for her products in sterling in place of gold or goods but India's dollar claims against U. S. A. were also converted into sterling, whereby, the British Government became possessed of India's dollar and prohibited the latter to import any treasure or capital goods from U.S.A. to equip herself industrially. The sterling balances so accumulating were not available to her with which to purchase machinery and other industrial equipment. The net result has been the vast accumulation of sterling credits of India against Great Britain.

THE ACCUMULATION OF STERLING BALANCES :—

The payment by the allies for the goods and services procured in this country was made in sterling as stated above to the Government of India and the responsibility of providing rupees to finance the purchases made by the allies here rested with the former. The Government of India, therefore, obtained the necessary rupee finance from the Reserve Bank of India on the basis of sterling securities which were acquired for a part of the sterling balances accumulating and transferred to the Issue department of the Reserve Bank with the effect of a coresponding increase in the amount of rupee notes issued in India. This made the people believe that the longer the

war the greater would be the amount of purchases and greater the purchases the larger still would be the accumulation of sterling balances which would form the basis for further increases in note issue and lead to an acute type of inflation, hitting hard the lower and the middle classes in the country, All this came to be true. This caused a profound change in the composition of the reserve. The sterling part of the reserve rose to colossal heights disclosing the ever weakening foundation of our currency system. The Govt. of India also resorted to another expedient for finding rupee finance namely the issue of notes by the Reserve Bank against Treasury Bills of the Government of India in which it found an unlimited reservior thus making the country pass along a very slippery road of finance. There is no denying the fact that the country has been flooded with inflation in its naked form as the notes in circulation have gone up from Rs, 179 crores in August 1939 to Rs. 1310 crores in May 1948 and Rs. 1167 crores in March 1950. This has caused a tremendous fall in the purchasing power of the rupee or a corresponding rise in prices which have shot up by nearly 45%. Had the Government at the centre been national in outlook, the colossal rise in prices might have been arrested by timely adoption of measures like increased taxation and production and larger subscription to public loans, stricter methods of price control and rationing and by restcring confidence of people in the currency, thus counter-acting the tendency to hoard goods which would have stopped flight from currency to commodities.

DISPOSAL OF THE STERLING BALANCES :—

There has been considerable controvercy about the disposal of India's sterling balances. The best use to which a debtor country can put the balances accumulated by it in the creditor country is to discharge its indebtedness. Since 1939 the Government of India have been utilizing India's balances in paying off her creditors and the sterling portion of India's public debt amounting to Rs. 463 crores which was borrowed from England in the form of sterling loans. The whole of it has been repatriated. It will be observed that repatriation is the replacement of the sterling debt by rupee debt or internal loan. Repatriation maintains the debt intact but in a different form. It follows from this that the total debt of India remains practically the same as it was before repatriation. But all of it is now internal. It is a debt owed by the nation to itself. Its annual interest charges involve a simple redistribution of money within the country. The tax payers who foot the cost of the debt and the recipients of interest are members of the same economic community. To the Govt. of India the cost of the public debt in terms of rupees will be no more or no less than before. But the nation as a whole will be spared

the cost of parting with some of its wealth in favour of Great Britain for the payment of interest. India, thus, has been able to change her status from a debtor country to a creditor one as a consequence of repatriation of the foreign part of the public debt out of the accumulated sterling balances.

It may be noted that India was compelled to lend this huge sum to Great Britain at an immense sacrifice on account of her political domination by the latter. The goods and services, the price of which was received in the form of sterling balances, were made available to Great Britain in the face of scarcity conditions at home and at the cost of a serious decline in the standard of living of the people of the country, the worst effect of which were noticed in Bengal where nearly two million lives were lost due to famine conditions so created.

SCALING DOWN OF THE BALANCES :—

The fears regarding scaling down of sterling balances or of the revision of the Indo-British Financial Agreement to the detriment of India fortunately proved unfounded. England had stood by its pledged words and is committed to pay the whole amount One fear, however, has been realised. Sterling has been devalued in terms of dollar by 30 5% in respect of the portion convertible into the dollar and other hard currencies. The value of our balances has decreased by 30%. This is certainly a heavy loss to a poor country like India which she may not be able to stand easily. This country had been pressing in the past for an assurance from Britain that she would compensate us for any devaluation of pound sterling that she decides upon. The balances are not kept in England willingly. They are rather blocked and England has not found herself in a position to pay them except through small releases.

INDO-BRITISH AGREEMENTS.

The negotiations with the United kingdom were concluded during August and a financial agreement between the Government of India and the Government of the United Kingdom covering the period upto December 31, 1947 was signed on August 14, 1947. Under the terms of the agreement, which became effective from July 15, the Reserve Bank of India opened two accounts, namely No. 1 and No. 2 accounts with the Bank of England. The total sterling assets of the Reserve Bank of India were fixed at £ 1,160 million as on July 14, 1947 which amount was credited to No. 2 account. Out of the balance in this account an amount of £ 65 million comprising an initial release of £ 35 million for current purposes and £ 30 million as a working balance was credited to No. 1 Account. The agreement provided that the balance in No. 1 Account would be freely available for payments in respect of current transactions in any

currency area and would, therefore, be fully convertible for current purposes. Any sterling received after the date of the agreement in respect of current transactions and any sums transferred from No. 2 Account were to be credited to this account. No. 2 Account was not to be used for current transactions and operations were to be confined to certain agreed transfers of a capital nature. A delegation from the U. K. visited India in January, 1948 for further negotiations with the Government of India regarding the sterling balances following which the financial agreement was extended upto June 30, 1948 Under the extended agreement a sum of £ 18 millions was transferred from No. 2 Account to No. 1 Account for purposes of current expenditure upto June 30, 1948.

UTILISATION OF THE BALANCES :—

The sterling balances which reached the peak figure of Rs. 1733 crores at the end of 1945—46 declined by Rs. 121 crores to Rs. 1612 crores during 1946—47. This reduction was due mainly to the large imports of food. During 1947-48 the reduction was somewhat smaller due to the restrictive import policy which was introduced towards the close of 1947 and the balance fell only by Rs. 67 crores to Rs. 1545 crores. At the end of 1949, the amount had considerably fallen to nearly 818 crores. The heavy outgo was mainly due to the payment to the U. K. Government in accordance with the agreement reached with them in July 1948, of Rs. 284 crores for the purchase of annuities for financing the payment of sterling pensions and the acquisition of the defence installations and stores left behind in India by the U. K. at the end of the war. The second reason was the payment to the State Bank of Pakistan the Pakistan's share of these balances following the separation of its currency from that of India. This payment has been continuing as the sterling and other assets of the issue department are handed over in instalments just as Indian notes are withdrawn from circulation in Pakistan and handed over to the Reserve Bank. Sterling to the extent of Rs. 177 crores had been handed over to the Pakistan State Bank by March, 1949. The third factor responsible for the decline was and still is India's adverse balance of payments on current and capital account Under the Indo-British Agreement signed in July 1948, it was agreed that India's free-sterling account which had a balance at the end of June 1948 of £ 80 million would be credited with an equivaalent sum during the period July 1949 to June 1951. In pursuance of this policy and also with the immediate object of reducing the inflationary pressure in the country, import controls were relaxed during the course of the year, and they resulted in substantially increasing the available supply of goods in the country. Unfortunately, however, it was not

long before it became evident that India was frittering away its sterling balances at an alarming rate. It was stated in London early in 1949 that India had already drawn not only the £ 80 million sterling-free balance brought forward from 1947—48 available upto June 1949 but had also heavily drawn on the 40 million sterling allotted for 1949—50 The course of foreign trade responsible for such a rapid depletion of sterling balances naturally made the Government of India anxious and she accordingly suspended the open general licence on May 5, 1949. The Government of India had been wanting to cancel the open general licence earlier but had held back in order to accommodate the British Government. This delay in the cancellation of the licence caused a reduction in India's sterling balances of no less than £ 42 million in ten weeks' time.

THE NEW INDO-BRITISH FINANCIAL AGREEMENT :—

Negotiations were again started and a new agreement was signed between the two countries in London in July, 1949. The terms of the agreement surpassed the most optimistic expectations of India. The agreement covered the period of next two years. Britain agreed to write off £ 81 millions drawn in the past year from Account No. II though it had been agreed that India would not draw any amount from this account. It provides for drawing £ 50 million for each of the two years 1949—50 and 1950—51 when last year a limit of £ 40 million was set for further drawings from Account No. II. India had agreed to draw £ 160 millions in three years. It drew that amount in one year only in actual practice. The British Government also agreed to release sterling to cover the orders placed for food by India before July, 1949. This has amounted to another £ 50 millions. If India does not draw more than what has been agreed, only £360 millions will be left to the credit of India at the end of 1951.

Sterling balances have been spent more rapidly than any one expected them to be spent. The whole of the amount has been spent on financing the purchase of food and consumers goods which were so badly needed. They have not helped India in building up new industries or financing of agricultural plans that was thought at a time to be the most important object for which balances might be used. The problem of inflation has not been solved at all though a huge part of the sterling balances has been used.

Sterling balances standing at the end of the third week of March 1950 amounted to Rs. 810 crores. It may be observed that out of this amount under the existing note-issue regulations India needs to have a minimum of Rs. 400 crores worth of foreign securities to maintain the note-issue at the existing level. A sum of Rs. 100 crores may be added to

this to provide a margin of about 10% over the minimum level. Thus, the sterling assets to the extent of Rs. 310 crores are left with India which can be utilized in buying over the remaining British commercial goods for her development programmes and for defence equipment.

THE CONCLUSION :—

In face of the cut of 30% imposed on our sterling resources as a consequence of devaluation of the pound sterling in relation to dollar it may be suggested that India should as far as possible with the cooperation of England avoid purchasing her essential supplies from hard currency areas like the U. S. A. Japan and others. India's representatives on the Consultative Committee have done well in stressing the possibilities of securing from sterling sources such essential goods as steel and non-ferrous metals which the cut prevents us from importing from dollar sources. In regard to many of these goods Great Britain is in a position to meet India's needs from her own production to a much larger extent than she has done so far. For instance, steel production in Great Britain is far ahead of her demand while she supplied India steel worth Rs. 41 lakhs out of her imports of steel worth Rs. 743 lakhs in 1949. Since this is the case there is no reason why India should spend dollars on steel imports if British steel makers could meet her demand. If this policy is adopted by cooperating with Great Britain, the huge loss occasioned to sterling balances as a result of devaluation can easily be averted to a great extent. In the First Five Year Plan presented by the Planning Commission, a new use for the Sterling Balances is contemplated. In the first part of the Plan, out of the total finance of Rs. 1493 crores, Rs. 290 crores are uncovered. The Commission has recommended that the sterling assets may be used in the case. Thus, there is provision to make the sterling balances contribute to the success of India's first attempt at planning.

Suggestions for further reading:

1. Our Sterling Balances : C. N. Vakil.
2. The Economic Consequences of Partition : C. N. Vakil.
3. Reports of the Reserve Bank of India.
4. The Monetary System of India : B. E. Dadachandji.
5. The Indo-British Financial Agreement, 1949.
6. India's Sterling Balances : Shenoy.
7. The Eastern Economist.
8. The Commerce.

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RURAL FINANCE IN INDIA

Synopsis :—

1. Introductory—agricultural finance is very costly in India, agriculturist pays exhorbitant rates of interest, Government can only provide emergency finance through *Taqavi* loans, the creditor-worthiness of the agriculturist is low, the supply of credit to cultivators has a national importance.

2. Agencies for Rural Finance and Their Defects—they consist of a mass of individual money—lenders, copperative societies, Government and Commercial Banks, the first is the most important but it is open to a large number of abuses.

3. Measures to Curb the Powers of Money Lenders—readjustment of old debts was recommended by Gadgil Committee (1945), the Agrarian Committee endorses the suggestions of the Gadgil Committee and advocates registration and licensing of money—lenders, maintenance of proper accounts and punishment for violation, issue of receipts and inspection of accounts by the debtors, fixing of interest rates and prohibition of unlawful charges and such other measures, regulatory acts should be properly enforced, village *panchayats* must be used to advantage, improvements in respect of mortgage and flight of capital should be effected.

4. The Importance of Cooperation—cooperation is the best and the lasting solution, cooperative credit must expand and should be re-organized, the Nanavati Committee has recommended certain improvements, the cooperatives must reduce their interest rates and should liquify their assests. the "controlled credit" scheme of Madras has proved useful, Provincial Land Mortgage and Cooperative Banks should be kept separate.

5. The Rural Banking Enquiry Committee—the Committee appointed by the Government in 1949, suggested the establishment of Agricultural Credit Corporations with Government control and participation, it stressed the usefulness of postal savings banks in the rural areas ; it also recommends decentralization of banks and the Indianization of the Imperial Bank of India.

6. The Conclusion—cancellation of old debts will greatly help the cultivator, the development of cooperation will solve many problems, the Reserve Bank should render greater help, there should be coordination of cooperative effort, there is need to for Provincial Rural Finance Boards attached to the Provincial Land Commission.

Introductory :—

It is an admitted fact that agricultural finance in India is very costly, the agriculturist has to pay a very exhorbitant rate of interest on accommodation he obtains for financing his agricultural operations, while profits in this industry can ill-afford the same. The other industries are able to secure the finance at a low rate of interest as compared to agriculture. The main source of rural finance is still the village money lender. The Cooperative Credit Societies have but covered a very small field in rural areas as compared to the vast population of India of which nearly 75% depend on agriculture for their livelihood. The *Taqavi* and other Government loans can provide only emergency finance and cannot act as a supplier of normal finance. A rational system of finance for this important national industry will go a long way to reduce the cost of production of agricultural products and, consequently, contribute a great deal to the economic betterment of the major portion of Indian population which toils and moils in rains and cold. The high cost of agricultural finance is due to the poor credit-worthiness of those managing this industry and as they form the bulk of the population of the country, the question of financing the agriculture becomes a question of paramount national importance. It is, therefore, imperative for the state to step in and supply unhesitatingly as much credit as is considered essential for the efficient performance of agricultural operations irrespective of individuals credit-worthiness. It will be a subsidy to the uneconomic cultivator and hence, a good investment.

AGENCIES FOR RURAL FINANCE AND THEIR DEFECTS :—

Indebtedness is inherited by the Indian cultivator and his income is generally low which makes it difficult for him to get rid of this indebtedness. Consequently, credit becomes dear to him and lending at a low rate of interest a problem by itself. The heavy cost of capital lowers the income and augments the existing indebtedness. Thus, better farming and higher income are definitely obstructed by the absence of a rational system of finance. In short, the agency for financing agriculture which exists to-day is not an organic

structure. It consists of a mass of individual money lenders, the undeveloped cooperative organization and commercial banks with Government coming in between the two. Short term credit needs of agriculture for seasonal agricultural operations and loans for marketing and movement of crops, for the purchase of cattle and farming implements are met by money lenders, Cooperative Societies, Government and, to a certain extent, by Commercial Banks. The feeders for the long term credit needs of agriculture for the improvement of land and for the payment of old debts are the Government and Land Mortgage Banks.

The bulk of agricultural finance is provided by money-lenders. For example, in Madras 93% of the loans is provided chiefly by money-lenders, 6% by cooperative organizations and 1% by Govt. *Taqavi*, usually the money lenders provide for short periods only. They also provide him with other essential commodities of life generally on credit basis and, in payment of his dues, he buys the produce himself at concessional rates. Thus, the two largest single factors depleting the peasant's income are the exploitation by the money-lender in his double capacity as the credit agency and the marketing agency of the village. The exploitation works like the double-edged sword—high rate of interest on the loans to the impoverished agriculturists and low rates for their products. So there is a vicious circle—extreme poverty forces the peasant into the clutches of the money-lender and the exploitation by the money lender leaves him poorer and a less efficient producer than before, which makes his income still less. Thus goes on this poverty spiral of the peasantry. The effort to increase his income can succeed if he can be freed from the exploitation of the money-lender and such freedom is possible by regulating the operations of the money-lender, organization of cheap and prompt institutional credit—short term as well as long term, and marketing through Cooperative Societies. The peasant's income could never be stabilized unless the drain on peasant's income through the money-lender's exploitation is immediately put a stop to.

MEASURES TO CURB THE POWERS OF MONEY-LENDERS :—

The adjustment of old debts of agriculturist producers, as recommended by the Gadgil Committee (1945) is a necessary preliminary to the reorganization of agricultural finance. Therefore, to stabilize the effects of the debt conciliation, there should be simultaneous efforts to restrict the operations of the money-lender through legislative measures as well as to organize institutional credit. The Congress Agrarian Reforms Committee is of the opinion that the laws for restricting the operations of the money lenders have completely failed in all the Indian States. The ceiling rates for

the rates of interest provided in these laws have been frequently violated. The rate which is generally charged varies from 15% to 30%. On grain loans *sawaiya* (25%) is the more common rate though from some places *dedhiya* (50%) is also reported. The committee was in complete agreement with the Gadgil Committee for amending the various Provincial Acts relating to money-lending business and recommended further :—

(1) The registration of money lenders.

(2) Licensing of money lenders.

(3) Maintenance of accounts in a prescribed form and in the regional language.

(4) Penalizing recording in the books of accounts or, in any other document, a sum larger than what has actually been lent.

(5) Furnishing of statement to the debtor in the prescribed form giving full particulars about each loan as and when advanced.

(6) Furnishing of periodical statement of account to the debtors.

(7) Issue of receipts to the debtors for every payment received.

(8) Limitation of the rate of interest.

(9) The enforcement of the rule of *Damdupat*.

(10) Prohibition against making unlawful charges for expenses etc.

(11) Provision to entitle a debtor to deposit at any time in a Court of law an amount in part or full payment of a loan to be paid to his creditor.

(12) Prohibition of contract for payment of loan outside the province.

(13) Institution of suits by debtors for taking accounts and for having amounts due from them determined.

(14) Protection of debtors from molestation and intimidation.

(15) Infringement of the provisions of the law to be made a criminal offence punishable with fine and, in appropriate cases, with imprisonment.

Regulatory acts can be effectively enforced only by the creation of a special supervisory agency for surprise audit and inspection of the books and accounts of the money-lender. The failure to provide a supervisory or inspection machinery in the regulatory acts in the depression period was certainly a serious omission. A conscious and active village *Panchayat* would go a great way in restricting the anti-social activi-

ties of the village money-lender. The case that money-lenders may be unified with the village banking system deserves to be examined.

Regarding the fixation of maximum rate of interest, instead of a uniform rate of interest, as has been done in all legislation, a schedule of maximum rate sufficiently detailed to meet the major variations in conditions should be carefully worked out and included in such Acts.

Regarding mortgages to private agencies, all usufructuary mortgages which do not provide for automatic redemption within 20 years should be avoided by law. In simple mortgages, transfer of land (by way of sale) should be made void and the mortgagee should only be entitled to possession for use for a period not exceeding 20 years to recover the amount remaining to be paid ; and the mortgagor should have the option to convert at any time the simple mortgage into a self-liquidating usufructuary one. One of the reasons why the regulatory legislation on money lending during the depression period could not achieve the desired result was the lack of institutional credit facilities. The Agricultural Department of the Reserve Bank of India in its study of the effect of these legislations on debt conciliation and regulation of money lending spoke about the shrinkage of credit facilities to the peasantry. The hardships for the peasantry are further aggravated because of the inadequacy of State assistance.

There would be a flight of capital, as in evidence at present from the country side after the abolition of Zamindari. The scarcity of finance for agriculture would be intensified. According to the memorandum submitted by Dr. Radha Kamal Mukerji to the Zamindari Abolition Committee, 40% of rural credit in the U. P. is provided by the Zamindars who might choose to invest their compensation funds in urban industries. The Reserve Bank of India has insisted upon all the Provincial and Central Cooperative Societies that safety and liquidity of cooperative banks would be maintained if 30% to 50% of the deposits were invested in Govt securities and treasury bills The Sub-Committee on Rural Marketing and Finance of the National Planning Committee has rightly observed that "such a policy would mean the transfer of large amounts of funds from rural areas to bigger financial centres and would thus accentuate the prevailing mal-distribution of liquid capital with the consequence that the rates of interest in rural areas would be maintained on a higher level than would be necessary". The Agrarian Reforms Committee did not favour the idea of withdrawing funds from the countryside through sale of National Savings Certificates for financing the Central

Government. One would desire a thrift campaign among the rural people to increase the deposits of the village multi-purpose cooperatives, and other higher rural financing bodies.

The indigenous bankers supply indirectly a considerable portion of agricultural credit particularly for financing the movement of crops from the up-country centres to the *Mundies*. No reliable estimates of the capital employed by indigenous bankers are available ; but it is recognized that amongst the agencies financing agriculture, internal trade and small industries, they occupy a prominent position. Their operations are not attended with formalities and delay and a majority of them combine banking with some form of trade. The select committee to which the Banking Bill was referred suggested recently that indigenous bankers should be brought in line with Joint Stock Banks and the difficulties in the way of extending the legislation to them should be examined.

THE IMPORTANCE OF COOPERATION :—

The spread of coopperation would provide the best and the most lasting solution for the problem of agricultural credit in particular and for most of the problems of rural economy in general. The cooperative movement, however, should be reorganized and revitalized to take up this all important and gigantic work of extending cheap and prompt finance to agriculturists. One of the reasons why cooperative credit could not compete with the credit provided by the money-lenders was its tardy character. The Nanavati Committee on agricultural credit organisation made a detailed enquiry into this aspect of the re-organization of the cooperative movement and concluded that the delay in disposing of loan applications could be minimised through the following devices :—

(i) Borrowing limits for each member and for each society should be fixed each year.

(ii) Societies with sound management should be allowed cash credit arrangements with their financing institutions.

(iii) Societies of good standing might be permitted to keep some cash in hand for making small loans.

(iv) The system of continuity mortgage bonds in Madras might profitably be looked into and adopted wherever conditions permit.

(v) The system of running credit to individuals may be adopted wherever practicable.

(vi) Authority should be granted to specific office-bearers to sanction loans not in excess of specified amounts in emergency :

The Committee also recommended that some amount of cash may be retained with the Chairman to enable him to facilitate the extension of prompt credit facilities. Every effort should be made to raise local deposits so that the co-operative credit society may be a real village bank. For loans to meet cultivation expenses, the bank in Egypt has framed limits based on the actual cost of cultivation of each kind of crop. For making the advances in kind, the bank has a large number of manure and seed stores all over the country. Each individual loan application is scrutinized and properly attested and, in very many cases, loans are then granted by the Sub-Agent of the bank.

It is beyond doubt that the Indian agriculturist has to pay for his financial requirements from the cooperative societies a very high rate of interest in India. The rate of interest varies from 7% in the C. P. and Berar to $15\frac{3}{8}$ % in Bihar. The Gadgil Committee recommended that for short term finance, maximum rate to be charged should be $6\frac{1}{2}$% and for long term finance 4% The Nanavati Committee observed that it would be possible for the cooperative societies to do so only when they could obtain funds from the Central Banks and other higher financing agencies at 4% or less and if they do not spend more than $2\frac{1}{4}$% on their staff, stationery, rent and other items of expenditure. The Committee further felt that the Central Banks maintained a very wide margin between their lending and borrowing rates (2.7% to 4.4%) and suggested certain measures to narrow down the margin. Firstly, the borrowing rates should be kept low. Secondly, there should be rigid economy in the working of the banks under the heads of travelling allowances, conveyance etc. Thirdly, uneconomic branches may be wound up. Fourthly, departmental supervision and bank inspection may be coordinated. Finally, the Central Banks, unable to make funds available to societies at 4% should be debarred from declaring a dividend above 4%.

The Cooperative Societies should liquefy their frozen assets by adjusting their debts. The efficiency of cooperative finance very much depends on punctual repayments. Resort to coercive measures, particularly in case of wilful defaulters may be advocated. The loans for current needs should be repayable at the end of the current agricultural season. The period for intermediate loans should ordinarily be three years which, in exceptional cases, may be extended upto five years. The efficiency of cooperative finance may be improved by supplying as far as possible, the requirements of members in kind through direct arrangements with the marketing unions of which the village multi-purpose cooperative societies, should be members. In the absence of such organisations, the society itself might supply the goods on indent system but should never take any trading risks.

In Madras very good results have been obtained under the scheme of "controlled credit". The essence of the scheme is that loans sanctioned should be given to members in instalments according to needs, and the loan given is recovered out of the income obtained by the application of the loan. This system of controlled credit may be extended with suitable variations to all provinces.

The Agrarian Reforms Committee holding a different view from the Gadgil Committee concurred with the recommendations of the Nanavati Committee on the question of merging the short-term and the long-term credit granting agencies. The former held that the Provincial Land Mortgage Bank should not necessarily be merged with the Provincial Cooperative Bank. The long term finance to the peasantry should be provided by the Provincial Land Mortgage Bank through its branches and, where there are no such branches some arrangemeni may be made with the Central Bank of the cooperative organisation to make long term funds available to the agriculturists through the lower bodies of the Central Bank. There is a considerable statistical support to the fact that Land Mortgage Banking has not developed very much in this country due to the competition from the money-lenders and due to the advancing of long-term loans under the guise of short term loans by the Credit Societies and Central Banks. The state assistance proposed by the Gadgil Committee for the agricultural credit cooperation should be extended to Land Mortgage Banks if they are expected to grant adequate accommodation to the agriculturist at the rate recommended.

THE RURAL BANKING ENQUIRY COMMITTEE:—

The Rural Banking Enquiry Committee appointed by the Government of India in Nov. 1949 suggested in its report to the Government to examine the feasibility of implementing with suitable adjustments the recommendations of the Gadgil Committee for the establishment of Agricultural Credit Corporations with effective state control and participation. The Committee pointed out that it is not possible to have a banking system for the rural areas which does not engage in the dispensation of rural credit as well as the provision of other banking facilities. The Committee considered it necessary to provide the institutional frame-work for such extension without which the mobilization of savings from rural people who account for the major part of the national income would be impossible. Such a frame-work would help internal capital formation, a factor very essential for the undertaking of schemes for rural prosperity such as multi-purpose projects and rural credit schemes.

The Committee recommended steps for increasing the usefulness of the postal savings banks in the rural areas such

as the opening of new offices with due emphasis on the tapping of rural savings, fixing of the emoluments to the branch postmasters as to provide a definite incentive to expand savings activity and propaganda. It is learnt that the Committee has also emphasized that the Imperial Bank of India should be enabled by stages to establish its branches or treasury pay offices at all places where the cash work at treasuries is now done by Government. The Committee is stated to have fixed a five-year period for reaching a target of 200 branches and treasury pay offices.

The Committee recommended that the steps be taken to amend the constitution and the working of the bank so as to emphasize and underline the semi-public and national character of this institution. For this purpose, the Government shall reassume powers for decentralizing the organizational set-up of the bank by establishing additional local head offices.

The Committee was aware that 'there is a Section of public opinion in the country which is intensely distrustful of the Imperial Bank of India in view of its past attitude towards Indianization and in respect of credit policy and owing to the fact that the institution is dominated at the policy level by foreign elements. We are, however, given to understand that the institution will be completely Indianized by 1954 and no undue importance need be given to past prejudices and controversies.

THE CONCLUSION :—

The drain on the income of the peasant will be very much reduced by conciliation of debts, regulation of the activities of the money-lender and organization of cheap institutional credit, but the exploitation of the village money-lender can never be fully eliminated, unless the marketing of agricultural produce is organized on a more rational and non-exploitative basis. In other words, it should be organized on cooperative basis. Cooperative-marketing would be facilitated to a great extent by linking credit with it and by not allowing a peasant who has taken credit from the Cooperative Bank to pledge his crop with any other institution or individual. This raises the problem of constructing ware-houses and procuring the necessary finance needed for the purpose. The Cooperative Planning Committee has recommended that the entire cost of constructing these ware-houses should be borne by the Government. The organization of licensed ware-houses has been taken up by the Provincial Governments of Madras and Bombay. The Agricultural Credit Department of the Reserve Bank of India has failed to respond to the needs of the peasantry for marketing finance by not discounting suitable agricultural bills. It may, however, be hoped that with the organization of licensed ware-houses and regional

authorities under the Land Commission, it would be possible for the Agricultural Credit Department of the Reserve Bank of India to come forward with a liberal attitude towards rural marketing finance. Duly filled up receipts for goods placed in the licensed ware-houses might be countersigned by the Regional Authorities of the Land Commission, which may be discounted by the Agricultural Credit Department of the Reserve Bank. The Regional Marketing Societies should be coordinated by the Provincial Marketing Society and the latter should come under the ageis of an All India Marketing Association.

To coordinate the various branches of institutional credit machinery, there should be Provincial Rural Finance Board attached to the Provincial Land Commission. The Board may consist of the representatives of Government, Land Mortgage Bank, the Cooperative Bank and the Land Commission.

Suggestions for further reading:—

1. The Gadgil Committee (1945) Report.
2. The Report of the Congress Agrarian Committee.
3. Report of the Rural Banking Enquiry Committee 1949.
4. Reports of the Reserve Bank of India.
5. Our Economic Problems : Wadia and Merchant.
6. Indigenous Banking in India : Dr. L. C. Jain.
7. The Indian Year Book, 1950.
8. Indian Economics : Dewett and Singh.
9. Report of the U. P. Banking Enquiry Committee.

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INDUSTRIAL FINANCE IN INDIA

Synopsis :—

1. Introductory—industrial finance assumed importance with the development of large-scale production; modern industries require two types of finance, durable and working, the proportion of the two differs in different industries, the former is increasing with the progress of capitalism while the latter depends upon the value of the product, the time involved in manufacture and the realisation of price.

2. Fixed and Circulating Capital in India—according to the 1947 census of manufacturers, the total productive capital employed by 29 major industries was Rs. 404 crores, Bombay had Rs. 114 crores followed by West Bengal of Rs. 105 crores; fixed capital is obtained through sale of shares and debentures or out of the deposits by private individuals, the last should better be through banks, issue of debenture has several difficulties.

3. The Managing Agency System—it developed because of the reluctance of the banks to provide long-term finance, managing agents render both direct and indirect assistance, banks insist upon their guarantees and their reputation counts; their defects are, their inability to coordinate savings and industrial capital requirements, lack of funds and deliberate inflating of capital to the detriment of general shareholders; the Indian Companies Act, 1936 has tried to remove some of the abuses of the system.

4. Agencies for Short-term Finance—the organised sources are the joint-stock banks, issue offices and the Imperial Bank of India, advances are against tangible and marketable securities or they are against hypothecation of goods; another method is through two name borrowing which is of various types; other sources of finance being inadequate, indigenous bankers come to play an important role which is gradually diminishing.

5. Causes for the Inadequacy of Industrial Finance—lack of organised money and capital market, illiteracy and ignorance of the rural masses, apathy of the urban population towards joint-stock banks, lack of stock exchanges, absence of branch banking and inadequacy

of banking facilities are some of the causes; it is desirable to have provincial finance corporations to work up provincial patriotism but to ensure planning an all India institution will serve the purpose better.

6. The Industrial Finance Corporation—it was established in July 1948, the Government, Reserve Bank, Banks, Insurance Companies and Cooperative banks have been alloted its shares, response from the banks has been good, the corporation is authorized to guarantee loans raised by industrial concerns, upto June, 1950 total loans sanctioned amounted to Rs. 7.19 crores, the corporation is doing useful work, its usual rate of interest is 5% and it has guaranteed a dividend of 2½%.

7. The Conclusion—in the case of cottage industries cooperation is expected to solve most of the problems of finance, marketing and organisation; for organised industries there should be more industrial banks and stock exchanges, there is also need for foreign loans.

Introductory :—

When industries in India were grouped in small villages and towns and in small establishments, and when they catered for small markets, the problem of financing them never presented itself in any formidable shape. Capitalist economy and large-scale production, however, brought in their train, the difficult problem of finding finance for them. Competition on a large scale which is the key note of modern capitalist organization demanded that an enterprise in order to be able to hold its own, must be in a position to get the necessary finance smoothly, regularly, easily and at a reasonable rate.

In recent years too many conflicting and vague statements regarding the financial requirements of industries in India have been made. It would be pertinent to enquire, at this stage, into the nature of their financial requirements. Industries need block capital to finance fixed assets such as land, buildings, machinery and other durable and permanent apparatus and working capital to finance floating assets i. e. for the purchase of raw materials, their conversion into finished goods, the purchase of stores, expenses connected with the marketing of goods, financing outstandings concerning goods supplied and the provision of funds for daily needs. Block capital is needed by new industries to make a start and by old industries for expansion and replacements and it is, more or less, permanent. The working capital is partly long-term and partly short-term. The proportion between block and working capital in every industry depends

upon its nature: the more roundabout the processes of production in an industry, the greater is the proportion that fixed capital bears to the circulating capital in it. Thus, the relative proportion between block and working capital required in an enterprise varies from industry to industry. Generally speaking, the proportion of fixed capital to working capital increases with increasing capitalistic methods of production. The amount of working capital needed in an industry will depend mainly upon the value of the output and the average length of time occupied by the productive process. But there are other equally important governing factors as well. The time at which the manufacturer gets paid and the methods of buying raw materials and affecting sales often affect the amount of working capital needed by a particular enterprise.

FIXED AND CIRCULATING CAPITAL IN INDIA :—

The total productive capital employed in the 29 major organized industries was Rs. 404 crores in 1947 against Rs. 367 crores in 1946. The increase in productive capital was mainly due to the larger number of factories covered in the second census of manufacturers (1947). Fixed capital accounted for 44% of the total productive capital, 16% being land and buildings, 25% plant and machinery and 3% other fixed assets. Working capital was 56% of the productive capital, stocks of raw material and fuels accounting for 35% and stocks of products and by-products for 21%. Among States Bombay had the highest productive capital employed (Rs. 114·6 crores) followed by West Bengal (Rs. 106·5 crores), U. P. (Rs. 58·3 crores), Bihar (Rs. 43·4 crores) and Madras (Rs. 36·8 crores). More than half the productive capital was in Bombay and West Bengal. In addition to the productive capital owned by factories, they also used assets secured on lease. The aggregate rent paid for such assets was nearly Rs. 1 crore. Among industries, cotton textiles had the highest productive capital (Rs. 132 crores) followed by jute (Rs. 52 crores), sugar (Rs. 45 crores), iron and steel (Rs. 33 crores), vegetable oils (Rs. 31 crores) and general engineering (Rs. 27 crores). These six industries accounted for 97% of the productive capital in the 29 industries surveyed.

How Capital has been Obtained.

Most of the major industries in India have obtained their capital for financing fixed assets either by public or private subscription of shares or debentures of the undertaking, or by direct deposits or by the system of providing money on private account by an individual or a firm. The part played by these different agencies has, of course, varied from industry to industry, and the tendency, of late, has been to secure

block capital by public or private subscription of shares or debentures. In the cotton textile industry, apart from the few older establishments which still retain their private proprietory character, the fixed capital has been found mostly from paid-up share capital and from deposits by the public, though in some cases this has been supplemented by debentures. Although the system of keeping deposits with industrial concerns deserves commendation and maintenance as long as such concerns cannot get adequate finance from banks, it is primitive and is unsuited to the conditions and needs of modern industry. Not only is a person who has made a small saving unable to judge the soundness of the concern with which he deposits it, but he also becomes an unsecured creditor, because the assets of the concern, on which he must depend for repayment of his deposits are handled by the Directors of the concern as they like. The intervention of a bank between him and the concern would make his deposit much safer because the bank with its huge organization would know the concerns worthy of being accommodated and the period of granting such accommodation and the bank would be able to exercise some control over their assets. The intervention of a bank would benefit the borrowing concerns also because deposits kept with them by private individuals are liable to be withdrawn at inconvenient moments when they may find it very difficult to borrow from elsewhere.

Industrial concerns in India should, therefore, progressively reduce their dependence on the above method of finance and should rely more upon the issue of debentures but the issue of debentures in this country is attended with many difficulties The issue of debentures adversely affects the credit of the issuing concerns with banks as the debenture holders have to be given a prior lien on their assets. The absence of issue houses, conservativism of investors due to colossal failures of industrial concerns, the heavy duty on the transfers of debentures, high cost of securing finance by means of debenture issues and their limited marketability have been some of the serious obstacles in the way of raising the necessary industrial finance through the floatation of debentures.

THE MANAGING AGENCY SYSTEM :—

Banks were not prepared to finance the long-term needs of industry and were unable to provide more than circulating capital and even that for short periods ; on the other hand, many of the enterprises were under-capitalized at the very outset and needed adequate financial assistance or guarantee at every stage of their work. So the managing agency system came to dominate Indian industry. The financial assistance rendered by managing agents has been

both direct and indirect. Direct loans are not the only aspect of direct finance by managing agents. They, since the very beginning, started the practice of purchasing shares of the companies and, more recently, have also taken up debentures floated by them either in their own names or in the names of their friends and relatives. The joint-stock banks, even with regard to the grant of short-term credit, are very rigid. The managing agents, therefore, have to provide indirect finance by guaranteeing the financing of industries. The banks make advances against tangible and marketable securities lodged or pledged with them and sometimes, they want, in addition, the responsibilities of at least two persons or firms unconnected with each other in partnership. These practices have compelled the managing agents to come forward and give the necessary guarantees to the banks. Most banks in the upcountry and in Bombay insist on the signature of the managing agents even when goods are hypothecated. The guarantee of the managing agents on notes of hand, in addition to the signature of a Director of the company, is insisted upon. Even with regard to public deposits which form such an important source of finance to the cotton textile industry, it is the name of the managing agents that ensures a steady flow of deposits, In the matter of issue of shares and debentures also, the standing and reputation of managing agents largely determine the success or failure of the issue. In brief, the managing agents perform a host of functions in relation to industrial finance. They serve as promoters of companies and take the place of under-writing houses of the West. They assist industrial concerns to obtain working capital besides block capital. The system, however, has several grave defects and has outlived its utility.

The system has created a divorce between banking and industry and has failed to secure a proper coordination between the total available savings of the public on the one hand and the industrial schemes and organizing ability available in the counry on the other hand. The dual existence of the system and the banks has retarded industrial progress. Moreover, as their financial resources are limited the managing agents cannot promote an adequate number of new concerns even in protected and undoubtedly profitable branches of production. In any case, they cannot have that close touch with the investors which the banks can possess and so they cannot float or underwrite industrial issues readily or to any large extent.

Other highly objectionable practices adopted by a majority of managing agents such as inflating the capital value of the concern with a view to purchasing the same subsequently at a low price. conversions of their loans to the concerns managed by them, into debentures to grant priority to their

own claims over those of the ordinary shareholders and their participation in speculative activities causing banks to withdraw their financial patronage, are too patent to need discussion. Besides, the system suffers from a large number of defects.

Some of the defects have been sought to be remedied by the amended Indian Companies' Act 1936. The purpose of most of the amendments incorporated in the Act is to restrict the unbridled powers of the managing agents with regard to the terms of their appointment, removal and delegation of their office. Restrictions have also been imposed on their powers to purchase shares or debentures of any other company or to grant loans or issue debentures except with the authority of the Directors within the limits fixed by them.

AGENCIES FOR SHORT-TERM FINANCE :—

After having surveyed the various existing methods of raising block capital for industries in India and the defects from which they suffer, it is important to observe that from the stand-point of short-term industrial finance the most important organized agencies are the joint-stock banks and the loan offices, with the Imperial Bank of India with its net-work of branches all over the country at their head. Of growing importance are also the insurance companies, some of which invest their funds in shares and debentures of industrial banks and make deposits with, or grant loans to mofussil banks and loan offices, which in their turn often utilize these resources in financing industries. The commercial banks, in financing major organized industries, have played a very inadequate part. They do not even underwrite industrial shares or debentures or lend money to a substantial extent against these securities. They can, however, give valuable assistance to new concerns by using their own paid-up capital and reserve to purchase the debentures of the latter, so as to transfer them later to the investing public. The Imperial Bank, the largest commercial bank in the country cannot give loans to concerns for the purpose of block capital because it is prevented by law from lending funds for more than six months or on the security of industrial shares or immovable property. The other joint stock banks have followed the Imperial Bank in this matter.

In giving loans for the purpose of working capital against the security of liquid assets such as stocks, the Imperial Bank keeps a margin of 30% or more so that industrial concerns have to provide themselves with not only the entire fixed capital, but also with a large proportion of the working capital or to borrow it from indigenous bankers at high rates of interest. The advances of other joint-stock banks fall under two main heads : (1) Advances against tangible and

marketable security lodged or pledged with the lender and (2) Clean advances against personal credit with a second signature to the pro-note. In India there are very few clean advances without a second signature—a class of advances that occupy an important place in America and the Continent of Europe.

In India the most usual form of borrowing is the cash credit account under which an advance is allowed against a promissory note signed by the borrower and secured by the hypothecation of goods. Under this system, interest is paid by the borrower only to the extent to which credit is availed from day to day. The system is thus advantageous to both sides, and although it is said to have hindered the development of the bill and acceptance market, it is very common.

Another very common method of raising funds is by means of two-name-paper loosely called two-name-borrowing. This takes various forms. Sometimes a promissory note is endorsed by a shroff a or by a firm of managing agents. Sometimes, the latter's signature is needed even in the case of advance made on the hypothecation of goods; and sometimes *it may be just a hundi* 'which is, in effect, a two-name-paper.' The bulk of the accommodation afforded is, however, based on the tangible security of valuable assets such as bonds, shares and immovable property or on the security of merchandize deposited either in the bank godowns or in the godown of the borrower under letter of hypothecation.

Neither public deposits nor private loans and deposits and the accommodation furnished by the joint-stock banks prove adequate to meet all the various needs of industry in India and hence, industrialists and enterpreneurs have often to approach the indigenous shroff or banker for finance. Old and established industries are more or less independent of the indigenous banker as they can get their capital without much difficulty from the public and the regular joint stock banks. In some of the new industries, under-capitalized or small concerns are more or less dependent on them for finance as they have no public deposits to fall back upon and their resources, by way of private deposits or loans, are also extremely limited. The importance of indigenous bankers in the realm of industrial finance pure and simple is gradually diminishing inspite of some help rendered to them by the Reserve Bank of India. They are losing their hold on deposits and the competition of joint-stock banks is gradually reducing their interest rates. It is only a sad commentary on joint-stock banking that some enterprises have to go to them for the costly finance supplied by them.

CAUSES FOR THE INADEQUACY OF INDUSTRIAL FINANCE.

Lack of adequate industrial finance in India is attributed to a lack of an organized money and capital market not only

in the countryside but also in big towns. People are generally averse to the investment of their resources in industrial enterprises and in majority of cases the banking facilities do not exist in the industrial sector of our economy. The illiteracy and ignorance of the rural masses and the apathy of the urban people towards joint-stock banks in general are responsible for the locking up of a large amount of available capital in purchase of ornaments, lands, and buildings and whatever is saved from this, is either hoarded or lent on high rates of interest to their neighbours or invested in Government and Semi-Government securities. In case of big towns, the lack of stock exchanges where industrial securities can be freely bought and sold, except in Bombay and Calcutta, and the absence of the institutions which can lend freely on the security of industrial shares and stocks and the public belief that the industrial and fiscal policy of the country is not determined by a government responsible to the people, prevent the urban people from investing in industrial securities. The development of branch banking in rural areas may go a long way to attract funds for industries. The expenses of opening and running a branch may be economised by opening the branch for a day or two in the week. In brief, the existing banking system is too inelastic and facilities offered too inadequate to meet the needs of industrial finance in India.

The Central Banking Enquiry Committee and all the Provincial Banking Enquiry Committees held the view that the existing facilities for industrial finance cannot deal adequately with the problem. It is necessary to establish either an All India Industrial Bank or a number of provincial industrial banks in order to provide that industries with a larger volume of finance for larger periods and at lower rates. They recommended that those Provincial Governments which finde it necessary to provide better financial facilities to inndustries within their jurisdiction should take the initiative in establishing Provincial industrial corporations with branches, if required, and should supply them a part of theinitial capital.

Provincial Corporations may be preferred to an All India Corporations because the industrial development is a Provincial subject and measures to promote it should be framed an controlled by the Provincial Governments. Each Provincial Government can find finances to its own provincial corpora tion more easily than the Government of India can do to an All India institution and they can look to the needs of the industries of their own provinces better. Further, the sense of provincial patriotism will help the provincial corporations to obtain capital by way of subscriptions to their shares and debentures rather than an All India Corporation would do by a centralised issue of shares and debentures

However, it must not be ignored that the Provinces do not exist as separate industrial units and it may not be desirable,

in the larger interests of the country, to encourage the idea of the separate industrial interests of the provinces. In a scheme of economic planning too, which will have to be based on an All India basis, the development of an industry will be determined by the superior natural resources of a particular region within the country rather than by provincial considerations. In other words, the economic integration along with political is a condition precedent to the rapid industrialization of the country. This leads to the need for an All India Industrial Corporations. It will be easier for an All India Bank to raise the necessary capital from the public and stand successfully through a difficult period of economic depression because of its superior resources. It will also be more convenient and economical for a central institution to employ technical experts to report on industrial schemes, to value industrial plant or to advise the concerns than for each industrial corporation to engage independent experts. In matters of tariffs, railway rates and the purchase of stores, an All India Bank can secure more favourable adjustments for industries from the Central Government than Provincial Banks.

To conclude an All India Corporation appears bidding fair over Provincial Corporations. Some provinces, however, have already taken the lead in this matter by establishing corporations within their respective jurisdictions. Such provincial Corporations as are already established or may be set up in future, may well form the federated links of the All India Industrial Corporation which may act as a coordinating agency for them.

THE INDUSTRIAL FINANCE CORPORATION :—

The Government of India established, in July 1948, the Industrial Finance Corporation under an Act of the legislature with a paid-up capital of Rs. 5 crores. Besides the Government and Reserve Bank, its shares have been allotted to and subscribed by only recognized institutions like banks, insurance companies and cooperative bodies. The scheduled banks' response to the first issue of capital has amounted to Rs. 1,54,25,000 against Rs. $1\frac{1}{4}$ crores offered to them. The cooperative bank failed to subscribe Rs. 395000 which was required of them. These figures must be judged in relation to the fact that no scheduled bank could apply for more than Rs. 12.5 lakhs and a cooperative institution could have applied for more than Rs. 5,00,000.

The Corporation is empowered to guarantee loans raised by industrial concerns provided, they are repayable within 25 years and are floated in the public market, to underwrite the issues of stocks, shares or debentures by industrial concerns and to grant loans or subscribe debentures of industrial concerns repayable within 25 years. The ceiling for the advance etc. for any concern has been placed at Rs. 50 lakhs.

The Corporation has since its inception sanctioned loans totalling to Rs. 7.19 crores. Amount sanctioned during the year ended 30 June, 1950 was Rs. 3.77 crores as against Rs. 3.42 crores during the previous year.

In its first year of working the corporation has not earned even the sum of Rs. 11.25 lakhs needed to pay the guaranteed dividend of $2\frac{1}{4}$%. At this rate, it will take a long time to build up a reserve equal to its paid up capital. If the Corporation eventually succeeds in building up reserves equal to its paid-up capital and if its paid-up capital is increased upto the full amount authorised, its total capacity to lend, counting the deposits, will be Rs. 130 crores. Until such times, the Industrial Finance Corporation has got into stride with its own resources. The greatest service which it can render to industry will be to gather the data necessary to find out from time to time how much capital industry is getting by ploughing profits back. Its banking functions are to produce finance which other banks cannot provide or which the managing agents cannot find. Its broader function, in view of its limited resources, is to formulate a policy for savings in industry.

In the years of its early running it became necessary to make arrangements for augmenting its resources by the issue of bonds. It was, therefore, decided to issue $3\frac{1}{4}$% bonds repayable in 1964 upto a total of Rs. $7\frac{1}{2}$ crores, the bonds being guaranteed by the Central Government as to the repayment of principal and interest. The total amount of issue under this arrangement till August 1950 is Rs. 5.30 crores.

The rate of interest usually charged by the Corporation is $5\frac{1}{2}$% with a rebate of $\frac{1}{2}$% if the interest and the principal are paid on due dates which means the effective rate of interest is only 5%. The annual accounts for the year ended June, 1950 show a net profit of Rs. 306038 out of which it is proposed to transfer a sum of Rs. 50,000 to the Reserve Fund leaving a balance of Rs. 256438. It is proposed to utilize this amount towards the payment of the dividend and to call upon the Central Government for the balance of Rs. 868562 to make up the guaranteed dividend of $2\frac{1}{4}$% per annum.

The Conclusion :—

A great future lies in front of India's cottage industries if only cooperation succeeds in providing them with loans at reasonable interest and raw-materials of good quality and improved tools and appliances at reasonable prices in removing the existing defects in their character such as ingorance, conservatism and a lack of combination and of proper business sense by propaganda and education and in helping them to dispose of their products. In the case of organised industries, the growth of industrial banks, issue

houses and stock exchanges is very necessary. It is a pity that in the First Five Year Plan, industrial finance has not been given the attention it deserves. It is probably necessary to invite foreign capital to augument the internal supply.

Suggestions for further reading :—

1. The Capital Issue Market in India : Samant and Mulky.
2. Report of the Central Banking Enquiry Committee.
3. Reports of the Provincial Banking Enquiry Committees.
4. Governmental Measures Affecting Invertment in India : D. K. Malhotra.
5. The Indian Companies Acts, 1936 and 1949.
6. The Annual Reports of the Reserve Bank of India.
7. The Industrial Finance Corporation Act, 1948. .
8. The Financial Structure of Indian Industries : M. M. Mehta.

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TRADE UNIONISM IN INDIA

Synopsis :—

1. Introductory—the need for workers' organisation arose with the evolution of the factory system under capitalist employer; in India the movement started rather late, in the beginning workers' grievances were tackled only through philanthropy and humanitarianism, this continued upto 1896.

2. History of the Working Class Movement in India—the first organised and registered Trade Union was the Amalgamated Society of Railway Servants of India and Burma formed in 1897, in the modern sense labour organisations developed immediately after World War I due to the presence of acute economic distress, other factors responsible for it were, the Indian National Congress, the I. L. O. and the Russian Revolution, in the early period there was no legal protection to trade union workers, the Indian Trade Unions Act was passed in 1926, in 1920 labour organisations developed in the textile industry and the All India Trade Union Congress was formed.

3. The Second Phase of Development—there was a crisis in 1929 caused by the Depression, there was a split in the ranks of the A. I. T. U. C., by 1938 there were four all India organisations, later on there was a temporary unification, the climax for splits reached in 1946; the labour organisations have been exploited for political ends, the communists have been most active in this respect, a large many rival organisations have developed; most of the trade unions have only a limited membership, three-fourths of the membership is to be found in West Bengal, Bombay and Madras, women's organisations are very few: there are three types of trade unions, industrial, craft and general, the first is the most common.

4. Obstacles in the Growth of the Labour Movement—they are: migratory nature of labour, heterogeneity, poverty, differences in political outlook, unemployment, the attitude of the employed, illiteracy, lack of proper leadership and the Government apathy.

5. The Present Position—the central organisation is doing very little of useful work, mostly Trade Unions

are mere strike committees, the membership is small, instruments of collective bargaining are not very well developed and the internal jealousies continue.

6. The Need of the Hour—the Government should stop internal strife, there is a need for change in outlook, the nationalism must prevail, more attention should be paid to internal administration, unions must take up welfare activities.

7. The Conclusion—trade unions cannot be divorced from politics but the political outlook has often retarded the growth of labour movement, political outlook must be only for securing protective legislation, sobriety must prevail over the trade unions.

Introductory :—

Under domestic economy when the worker was the sole master of his labour, tools and the place where he worked, no need for any organization on his part was felt. It was with the advent of the factory system of production when he found himself working under the roof of his master with tools and raw materials supplied by the latter who often appropriated to himself more than what was his due out of the product of industy that the worker realised the need for organization if he was to be assured a reasonable standard of living.

The trade union movement in India is of comparatively recent growth and development. The beginnings of the labour movements go back to half a century. Towards the end of the 19th century, Shri S. S. Bengalee and N. M Lokhande took up the cause of women and child workers employed in the cotton mills of Bombay. The Bombay Mill-hands Association was established in 1890 by Shri Lokhande, which succeeded in getting a weekly holiday for workers. In Calcutta, under the auspices of the Brahmo Samaj, the Working Men's Mission was established in 1878, which undertook to do social work among labourers by opening night schools for workmen and depressed classes. It also preached practical religion, morality and temperance. In brief, no organization of workers was brought into existence to deal with labour grievances till 1896. Whatever little was done in this direction was thought to be the concern of philanthropists and social workers or persons actuated by humanitarian considerations.

HISTORY OF THE WORKING CLASS MOVEMENT IN INDIA :—

The first labour organization to be registered as such was the Amalgamated Society of Railway Servants of India and

Burma in 1897. But the union members and officials were without any legal protection and their struggle without legal sanction continued till 1926. The other notable ones were the Printer's Union, Calcutta (1905); the Bombay Postal Union (1907). The Kamgar Hitvardhak Sabha or Worker's Welfare Association was formed by social workers in Bombay in 1910.

The close of the First World War saw the beginning of labour movement in the truly modern sense of the word. Economic and political conditions alike contributed to the new awakening. Prices had been doubled; there had been no corresponding increase in wages though the employers had amassed fantastic profits. This was reflected in a profound labour unrest—a marked feature of the twenties. In the political field new ideas were in the air: the Indian National Congress had formulated a demand for immediate Self-Government which raised new hopes in the labourers regarding their status and fortune. India's membership of the International Labour Organization in 1919 created a new lever for the growing labour movement. Beside these factors, the Russian Revolution of 1917 and the success of the strikes that occurred during this period contributed in no less degree to the raising tide of the movement. This led to the formation of a large number of trade unions.

The first systematic attempt at trade union organization, with regular membership and dues of workers in an industrial centre was made by Shri B. P. Wadia when he founded the Madras Labour Union in 1918. This labour union, one of the most effective of early labour organizations in India did excellent work in removing the grievances of workers. In 1921 the employers used the law against this union. The Madras High Court, following the common law in England, considered the trade unions an illegal conspiracy and so passed an interim injuction in the course of strike, restraining the union leaders from interfering with the business of the employers. Shri N. M. Joshi realizing that trade union movement could not progress without legislative protection made an unsuccessful attempt to have a trade union bill passed. It was after five years of persistent efforts that the Indian Trade Unions Act was passed in 1926. The Act conferred on, trade unions a legal status and their executive and members, immunity from civil and criminal liability in respect of strikes. The general funds of a registered union can now be spent for the conduct of trade disputes and the provision of educational, social or religious benefits for its members. The majority of the members on the executive of the registered trade unions must be from the workers.

The year 1920 saw the establishment of the Textile Labour Association at Ahmedabad which has become a

model to be followed throughout the country. It is a compact and well organized trade union. The success of this Association has been largely due to the solidarity it has been able to build up among the workers through its social welfare activities like compensation for accidents, medical aid, education and temperance work and through the practice of joint conciliation and arbitration with the Ahmedabad Mill Owners Association.

The year 1920 also saw the establishment of the All India Trade Union Congress. The main impetus to its founding was to secure a nominating body for representation at the International Labour Conference at Geneva. It was also realised that the mere starting of labour organisations was not enough unless they all federated into an all India organization to be able to speak with one voice and to secure some measure of coordination and concerted action.

THE SECOND PHASE OF DEVELOPMENT :—

In 1929, the trade union movement which was so far on high tide of working class advance and activity, was faced with a grave crises. The Indian Trade Union Congress which had succeeded in bringing within its fold a large majority of trade unions, spread over the country, was split into two organisations due to serious differences of opinion among its so called left-wing and right-wing groups. The moderate leadership headed by Shri N. M Joshi and Shiva Rao etc. seceded from the Indian Trade Union Congress and carried away the unions supporting them to form the National Federation of Trade Unions. More splits came in subsequent years and by 1933 there were four organisations in the field, the All India Trade Union Congress, the All India Red Trade Union Congress, the Indian Federation of Trade Unions and the All India Railwaymen's Federation. Then a phase of unification was inaugurated, the first two bodies merging into one organization under the name of A. I. T. U. C. and the latter two amalgamating into a new body under the new name of National Trade Union Federation. Conditions were now ripe for further unification and in its general session in 1940 the National Trade Union Federation adopted a resolution favouring amalgamation with the All India Trade Union Congress and a joint session of the two organizations was held under the auspices of A. I. T. U. C.

The unity thus achieved, proved short-lived and another cleavage in labour ranks came the very next year. The attitude of qualified support for the war effort adopted and maintained by the Trade Union Congress which had led to the secession of a number of Unions such as the Indian Seamen's Union from it, culminated in the creation of a new central organization of labour early in December 1941 under the name of the Indian Federation of Labour. Things

came to a head in 1946 when both A. I. T. U. C. and I. F. L. put forward claims to represent the Indian working class at the I. L. O. session. The result of the Govt enquiry was decidedly in favour of A. I. T. U. C. which according to different tests such as membership, area, financial position and industries represented was found to be more popular among workers than I. F. L.

The Political Outlook.

The activities of the Communists during the second period of Congress ministries since 1946 in fomenting and organizing a large number of strikes in all parts of the country, taking advantage of the post-war unsettled conditions and sufferings of the people regarding food and cloth, have opened the eyes of Indian National Congress to the inevitability and extreme urgency of organizing patriotic labour on the lines of *Hindustan Mazdoor Sewak Sangh* into a separate All India Trade Union Organisation with a view to protect labour from Communist machinations to organize them on national lines to safeguard their interests against employers, to further strengthen their hold over the National Congress and make the Congress itself the champion of their cause and their effective political platform. Hence, the Indian National Trade Union Congress (I. N. T. U. C.) was formed in May 1947, as a separate organization from the A. I. T. U. C.

In addition to the federations registered under the Act there were on 30th Aug. 1948 four all India organisations of workers namely the All India Trade Union Congress, the Indian National Trade Union Congress, the Indian Federation of Labour and the Hind Mazdoor Panchayat. In January 1947, the A. I. T. U. C. claimed the affiliation of 608 trade unions with 726439 members. The Indian National Trade Union Congress which was formed on 2nd May, 1947 claimed in 1948 the affiliation of 498 trade unions with 1033614 members. The Indian Federation of Labour claimed in 1946 the affiliation of 193 unions with 450479 members. The fourth All India Organization of labour, the *Hind Mazdoor Panchayat* has been started recently. During the 1946-47 there were on its registers 7 federations. Three of these were in C. P. and Berar and one each in Madras, Bombay, West Bengal and the U. P. The number of unions affiliated to these federations stood at 448 at the end of the year. The federations had a total income of Rs. 93943 and incurred an expenditure of Rs. 87934. The Textile Labour Association, Ahmedabad alone accounted for 72% of the income and 78% of the expenditure shown above. The Association had also a political fund amounting to Rs. 1220.

Composition.

Of the 1725 Unions on the registers at the end of 1946-47

only 998 i.e. 58% submitted annual returns showing details of membership, funds etc. The total membership of these 998 unions was 1331942 at the end of 1946-47. They had a total closing balance of Rs. 37 lakhs as against an opening balance of Rs. 25 lakhs. During the course of a single year (1946-47) both finances and membership showed a phenomenal growth and recorded 50% growth.

Although the total number of registered trade unions submitting returns is about 1000, over 30% of the total membership is to be found in only 14 unions having a membership of 20,000 and over. Among the various groups, transport (including Railways and Tramways) accounts for 12% of the unions and 34% of the membership. The average membership per union in this group was 3594 in Tramways and 3775 in Railways and other Transport services Textiles accounted for 17% of the unions and 26% of the membership and showed an average membership of 2096 per union. Seamen's union showed the highest average membership viz., 5,924. Of the total reported membership about three fourths is accounted for by the three most industrialised provinces namely West Bengal, Bombay, and Madras. Women formed 4·9 per cent. of the total membership of the unions. A majority of the women members belong to the textile unions which accounted for 67% of their total membership.

Types.

Trade unions in India may be divided into craft unions, industrial unions, general labour unions etc. The majority of the Trade Unions in India are industrial unions, that is to say, unions which aim at organizing all the workers in a single industry irrespective of the occupation, skill, sex of the member etc. A notable exception to this, however, is the Ahmedabad Textile Labour Association whose affiliated members are craft unions. A Third type of union in evidence is the general labour union which is an organization of workers from various industries or crafts into one Association as the *Mazdoor Sabha*, Kanpur, and Bombay, Girni Kamgar Union.

OBSTACLES IN THE GROWTH OF THE LABOUR MOVEMENT :—

There were several obstacles to the growth of trade unionism in India. During the last three decades, the T. U. movement has undoubtedly made considerable headway; still its growth has not been as rapid as could be expected under the industrial and social conditions of the country. The movement is not in a position to deliver the goods. Migratory nature of labour weakens the strength and interest of the workers in labour struggle. They look forward to an ultimate escape from industry and a return to the rural areas; they

are less inclined than permanent workers to maintain a constant interest in any organization. Their heterogeneity, due to the differences of caste, religion and language as a serious handicap to organization of workers is quite understandable. The workers' oppressing poverty, often combined with indebtedness makes even a small subscription a considerable burden and puts further obstacles in the way of trade union development. Financial resources, as a consequence, become meagre and unions are generally not able to maintain a paid staff. Disproportionate interest in political ideologies presents another serious obstacle to its healthy development. Working class in India is becoming gradually imbued with class consciousness and is shrewd enough to appreciate the advantages of collective baragaining but unfortunately this potential power has not been successfully canalized into the legitimate channels of collective bargaining and solidarity of the workers. The influence of communism which creates an ideological class-conflict under which the very basis of the economic system is challenged has frequently harnessed the movement for the service of its own political aspirations. To say the least, every political party in control of the movement has been utilizing it for the fulfilment of its own political designs ignoring its primary objective, the amelioration of the conditions of workers. The labour organizations in India, as elewhere, have to contend with opposition of employers. The employers in majority find in the worker's organizations nothing but a challenge to their power and authority while unscruplous among them do not hesitate, by any means fair or foul, to nip in the bud the growing cohesion among workers. The employers who are at best lukewarm in their attitude towards collective bargaining are often alleged to hinder the growth of unionism by active or passive discouragement. The most powerful factor discouraging the spread of labour organizations is the fear of victimization of the workers by the employers. The *Sardars* and jobbers on whom the workers depend a great deal for their employment are actively hostile to labour organizations because they think they would lose the extra income they can make if the redress of the worker's grievances becomes the concern of the trade unions. The lack of a democratic spirit and of education are the two fundamental deficiencies of the Indian workers. His illiteracy makes him an easy victim to outside exploiters. The paucity of genuine labour leaders from the ranks of the workers themselves having the latter's interest at heart accounts for the slow growth of the movement. The Government's apathy towards labour organizations has been another very powerful factor to hinder the growth of unionism. The employers frequently banked upon the police and magistracy for their assistance.

THE PRESENT POSITION :—

It will not be a surprise to those who are conversant with the working of the A. T. U. C. that the exercise of the prerogative as a central organization to nominate representatives to conferences and committees in India and abroad and the passing of a set of resolutions at intervals practically exhaust the range of activities of the A. I. T U. C. It takes no hand in the organization of the working class. It has failed to develop a strong and sound trade union basis for the labour movement in the country. As is well known it has not touched more than a small fraction of the wage earners in the country. In many cases, the trade unions lack the essential attribute of an effective organization of labour and wherever they have functioned, it is painful to point out that they have acted merely as strike committees. The numerous strikes and their failure to redress grievances have weakened the movement. Thus, the instrument of collective bargaining in the hands of organized labour has not been developed ; since its energies were wasted in fighting the disruptive and disintegrating forces that always haunted the movement. The present A. I. T. U. C. is a loose federation of labour.

With so many organizations vying with one another for the support of the workers, the pitfalls of evolving and pursuing a sound policy for trade unions are many and varied. Division of the trade union movement among small, unstable and often conflicting factions saps its strength and when labour movement itself presents a house divided against itself, workers' interests are likely to go by the board. The danger is not only that the employer will play one organization against the other and follow the principle of 'divide and rule, but also that the organizations themselves will be involved in petty conflicts and may have no desire left to ameliorate the lot of the workers.

THE NEED OF THE HOUR :—

Rivalry of trade unions is not a domestic concern of the working class organizations. The State as the guardian of the community has an important stake in it. No Government worth its name can sit on the fence and watch the game of power politics being played by trade union leaders in which workers are treated merely as pawns.

In order to be realistic, the trade union policy must be reoriented to the changed times. The economic progress of the country, to a large extent, will be determined by the role of trade unions in New India. At present, the country is facing an economic crisis and there are not enough goods to go round. The choice before the nation is to 'produce or perish.' Trade unions cannot afford to be deaf to this call

and disappoint the hopes of millions in this country. And once the pledge to produce more is taken it means that the unions will not do anything that interferes with production. To emphasize this is not to argue that workers' interests should not be safe-guarded but only to point out that unions should be more judicious in their choice of weapons against the employer. Strike is not the only method to promote the worker's welfare, there are others equally potent and effective. Why should unions be mortally afraid that their progress shall be hampered, when the whole climate of opinion in this country is tending in favour of giving a fair deal to the workers? The popular Government has recently amended the Trade Unions Act to secure compulsory recognition of trade unions by the employers.

As trade unions develop in the country more attention should be paid to their internal administration. The transition of a trade union from a fighting organization to a permanent institution for collective bargaining is called for in the interest of promoting workers, welfare. For this new techniques will have to be utilized. The fighting spirit is to be replaced by a constructive and cooperative spirit. Its policies will be based not on empty slogans but on hard facts of industrial work and life and it will soon realize that antagonism for its own sake does not pay. On the other hand, it will find that there is a wide sphere in which it can serve the workers best by cooperating with the management. Equally urgent is the necessity of drawing trade union leaders from among the rank and file of the working class who have imbibed its aspirations and know the best way to achieve them.

THE CONCLUSION :—

Trade unionism can never be purely an economic movement divorced from politics nor can labour politics be divorced from economic issues They are inter-dependent. There fore, proletarian economism is as disastrous and futile as pure politics. Both have to act and react upon the social conditions of the proletariat. Predominance of political influences in some of the trade unions has been a serious bottleneck in the development of trade union practice on a universal scale. Unhealthy political influences constitute a great obstacle to the growth of healthy trade unionism in India but a stage is envisaged when workers would realise that party politics was really out of place in trade unions and that their organizations were first and last concerned with the interest and welfare of the constituents rather than for playing the role of pawn in the game of power politics. Only the limited interest in politics to secure the necessary protective labour legislation ought to be deemed essential. Under the

new constitution labour has to get an increased voice in the legislature of the country. The labour class must use its new fangled power with reserve and sobriety.

Suggestions for further reading:—

1. Trade Unionism in India : Puntambaker.
2. Report of the Royal Commission on Indian Labour.
3. The Indian Working Class : R. K. Mukerji.
4. The International Labour Reviews.
5. State in Relation to Labour in India : V. Shiva Ram.
6. The Rege Committee Report.

sions enforced by the State relate to the special arrangements for health and safety necessitated by the nature of the occupations whereas voluntary welfare work is concerned with the general well-being of the workmen.

Further, being applicable to a large number of small establishments, legislation can do no more than prescribe a minimum standard. Nor can it secure that which is perhaps most needed, the promotion of the well-being of the people as an essential function of management. Even if the State compelled the employers to create the welfare organizations, they cannot achieve the same results as a voluntary organization, nor can they possess the same spirit and zeal by which such organizations are animated. No enforced scheme of welfare work is ever likely to be successful.

The field of legislation and that of welfare work often overlap. Legislation is constantly encroaching upon what has been regarded as the province of the individual employer and what, in some countries, are left to the option of the employers are in others enforced by legislation. Indeed legislation is a great aid to well-meaning employers, for by making minimum conditions general and applicable to all, it directly paves the way for securing further improvement in the working conditions and, thus, well conceived legislation furthers welfare work. The evolution of industrial legislation follows closely the standard set by good employers. The comforts and luxuries provided by the more enlightened and enterprising employers are soon regarded as a necessary and essential part of the workers' life and health and legislation follows and enforces their provision on all employers. Thus, the work of individual employers has a great reaction on industrial legislation and gradually raises the general standard of comfort.

IMPORTANCE OF WELFARE WORKS :—

The importance and true nature of welfare work has come to be understood quite recently in all countries. It is now realized that welfare work has two aspects of equal significance—a business aspect and a humun aspect. Until recently only the latter feature was stressed and the welfare work revealed itself in its humanitarian aspects at its very best. But there is a serious danger that welfare work prompted by mere sympathy may degenerate into charity and injure the worker's sense of self-respect. Indeed the emphasis on the benevolent side of welfare work has not been productive of good results. Welfare work is now regarded as an essential part of good business organization. It is a recognition of the indisputable fact that to cultivate industrial welfare is to cultivate efficiency and the supreme principle has been the belief that business efficiency and the welfare of the employees are but different sides of the same problem.

Speaking generally, the necessity of welfare work arises from the beneficial effects of welfare measures such as educational facilities, sports, entertainments, etc. on the sentimental atmosphere in the factory and their contribution to the maintenance of industrial peace. When the worker feels that the employer and the State are interested in his day to day life and would like to make his lot happier in every possible way his tendency to grumble would disappear. Secondly, better housing, cooperative societies, canteens, sickness and maternity benefits, provident funds, gratuities and pensions and such other things are bound to create a feeling amongst the workers that they have a stake in the industry as much as anyone else, and the present situation under which labour turnover and absenteeism prevail and the workers are constantly tracking to their village homes in search of social security and recreation will yield place to a new situation in which the working class becomes more stabilized and economically efficient. Thirdly, the social advantage even apart from the humanitarian value—of such activities are considerable. Thus, the provision of canteens where cheap, clean and balanced food is available to workers must improve their physique; entertainments must reduce the incidence of vices; medical aid and maternity and child welfare must improve the health of workers and their families and bring down the rates of general, maternal and infantile mortality; and educational facilities must increase their mental efficiency and economic productivity.

For achieving the maximum results, however, welfare activities have to be undertaken in the right spirit i. e. mainly with a view to making the lives of the workers happier and healthier. Thus, it has been stated and, not without reason by some trade unions, that employers often make use of welfare activities for undermining the influence of trade unions and to wean away the workers from them by discriminating against those who are members of unions. Such vindictive use of welfare activities must necessarily have unfortunate consequences in the long run. It may, on the other hand, be useful to welcome suggestions from the workers for improving working arrangements in the factories and the workers be made to feel that in the daily working of the firm, they are as much concerned as the employers. Welfare work undertaken in the right spirit is bound to create a better relationship between the workers and management and an atmosphere of goodwill and harmony so essential for the avoidance of strikes and lockouts.

The next important problem in regard to welfare activities is of the agency which is likely to be the most suitable for such work. There are certain measures which easily fit into the factory set up and therefore, appropriately belong

to the category of measures to be undertaken by the employer. These include, for example, canteens, creches and recreational facilities. Certain other measures for example, educational and medical facilities may be regarded as more appropriate subjects for state action. In regard to other measures, the precise sphere of employers may have to be demarcated and the responsibility shared by them and the State. Sometimes, the objection is raised that small employers cannot afford provision of costly amenities. In this connection it may be suggested that some of the essential items of welfare may be provided in the Act itself and further regulations regarding details may be kept to be made by rules. As there will be difficulties for enforcing some of the welfare activities such as canteens, creches, washing and bathing facilities in the case of small factories, it may be suggested that some of these welfare measures be made available in industrial areas for the general body of workers for whom no separate provision could be made by the employers and these facilities should be under Municipal or Government control but may be financed by the employers. Welfare work is not an embroidery on ordinary management, but is a vital part of factory organization and it should be shared by all and should not be left entirely to those who are specially set apart for the work.

THE NEED FOR WELFARE WORKS IN INDIA :—

With low standards of living, education and health prevailing practically all over India, the task of raising the economic level, of preserving human life and avoiding disease, providing better and cleaner houses for everyone, and making the best use of the raw materials and labour available are some of the urgent problems which can brook no delay. Recognition of human dignity and rights of men is the greatest need of the hour. With the rapid industrialisation of India, the problems of labour and its welfare are coming into prominence. In the not too distant past, most of our industrialists thought that man was a mere 'machine' for extracting as much work out of him as possible. Little was paid to his physical well-being and the human factor. This notion is now looked upon as antiquated. The world is now coming to recognise that the manhood of the worker is more sacred than the profit of the employer and that the welfare of the worker is the welfare of the employer and ultimately the welfare of the nation.

The need for welfare work of a very comprehensive character in India is very great. Labour is largely migratory and unwilling to settle down definitely to factory work. Partly as a consequence of this, but also owing to other factors labour is very inefficient. To secure a stable class of industrial labour and also to make them efficient, conditions in

and outside the factory have to be improved and welfare work is one means of achieving this end. An increase in their wages does not raise their efficiency because of their low standard of living and of their unwillingness or inability to spend their wages in directions that would promote their physical and mental well-being. Even from the utilitarian point of view, welfare work is sure to be a paying proposition but it is also certain to produce other equally valuable results. Welfare work of the right kind is bound to exercise a great influence in improving industrial relations and in promoting goodwill and harmony between the employer and his work people. Welfare work is regarded as the best agency for securing industrial peace. Indeed, in welfare work employers in India can find a distinctive means of securing industrial harmony. The purpose of welfare work being to recognize the personality of each worker it would be easy to remove all minor personal difficulties and create an atmosphere of goodwill and harmony. This is more easy to achieve in India because the Indian worker responds most readily to kind and generous treatment and his loyalty is a great asset to the industry and can easily be secured by the disinterested and generous action of the employers. Workers in India are illiterate and unsophisticated. They afford good raw material to be exploited by unscrupulous men who call themselves to be their leaders and, hence, in removing ignorance the employers will be able to secure an intelligent body of workers who will not allow themselves to be used as pawns in the personal or political game of interested outsiders. Voluntary welfare work is of a kind that is most suited to the national temperament of the people. A certain paternal outlook on the part of the employer will not be resented by the Indian worker if he is convinced of good intentions. The Indian operative has an innate regard and respect for the employer and will be prepared to look to him for assistance and help if it is rendered in the right spirit.

GOVERNMENTAL EFFORTS AT LABOUR WELFARE :—

The Govt. of India, till recently, did not undertake any activities to promote the welfare of industrial labour. In January 1944 the Govt. Instituted a Coal Mines Labour Welfare Fund to undertake activities conducive to the welfare of coal miners. The C. M. W. Fund has since begun its work and has sanctioned considerable sums of money for carrying on extensive malaria prevention work, provision of entertainment and construction of up-to-date hospitals in Jheria and Raniganj. The Govt. of India has also issued directives regarding the constitution of Labour Welfare Funds in the industrial undertakings of Government. The fund is partially supported by Govt. grants in the beginning

and is intended to be utilized for providing indoor and outdoor recreation, reading rooms etc. to workmen employed in the undertakings. Amenities such as water supply, tiffin rooms and rest shelters, canteen facilities etc. for the provision of which the employer is normally responsible are not to be financed from this Fund. The Govt. of India in the standing Labour Committee decided to set up Welfare Trust Funds in private industrial undertakings with the help of the provincial Govts. Since the response, in this regard, from the employers has not been satisfactory, the question whether legislation should be undertaken to enforce the above decision is under examination.

Amongst the provincial Govts. it is the U. P., Bombay, West Bengal and Mysore which have organized schemes of Labour Welfare. With the object of providing educational and recreational facilities for men, women and children belonging to the industrial working class, the Govts. of Bombay and U. P. have opened three types of welfare centres in different industrial areas. An 'A' type labour welfare centre is housed in a large building or pavilion constructed in the room of a theatre and has a large play-ground attached to it. The centres in Bombay and Ahmedabad have a gymnasium with suitable wrestling pits. Separate shower baths for men and women are provided. These centres provide facilities for both indoor and outdoor recreation. 'C' type centre provides facilities for indoor recreation only, while the 'D' type provides only for outdoor sports. All 'A' and 'C' type centres are provided with well-equipped libraries and reading rooms. Activities for women include literacy classes, sewing and embroidery classes and the organization of round games. At each 'A' type centre a full time nursery school is conducted for children of the ages of 3 to 6. On arrival at the school, they are bathed and dressed in clean uniforms. Instruction is imparted by the Montessori method. Well-equipped children's play-grounds with swings, see-saws, merry-go-rounds, giant slides etc. are also provided at all 'A' type centres.

The Labour Welfare Department of the Govt. of Bombay has its own cinema equipment at Bombay and Ahmedabad with a number of films. Separate shows are organized for children and adults. At 'A' and 'C' type centres dramatic performances are occasionally arranged. Variety entertainments, musical concerts are arranged at all centres at frequent intervals. Every centre has also been provided with a radio set. In Ahmedabad a fully equipped and well-staffed engineering workshop has been established for imparting vocational training in technical trades to adult men either in or out of employment as alternative occupations or apprentices. The average number of trainees at the

centre is 130. A school for the *training* of labour welfare works has also been started at Bombay.

Organization of Labour Welfare work in the U. P. is almost on the same lines as in Bombay. There are nearly 33 centres in the province for the provision of medical, educational, recreational and other facilities to industrial workers free of charge. Free shows of popular films are arranged at local and out station welfare centres by the Department. Music and Dramatic Clubs are also organized at the centres besides the usual activities. In three centres night schools for workers' children are conducted. Similarly, in West Bengal there are 17 welfare centres. All usual welfare activities are undertaken at these centres.

As it is clear the items of labour welfare are being gradually covered by legislation. For instance, the provision of rest shelters, canteens and creches, pithead baths etc., are being made statutory obligations under the various laws. Similarly, with the coming into force of the Employee's State Insurance Act, the provision for medical aid will no longer be the responsibility of individual employers. Moreover, as will be seen, the Provincial and State Governments have now stepped into this field and are opening up welfare centres in industrial areas. Even so there is still scope for individual employers or their association to provide amenities for recreation for their employees.

WELFARE WORKS BY THE EMPLOYERS.

The Tata Iron and Steel Co. Ltd. at Jamshedpur has done a good deal to promote the welfare of its workers and the Welfare Department was established over twenty years ago and its activities are being progressively extended The company maintains a 400 bed hospital and eight dispensaries in different parts of the town as also an infectious diseases' hospital. Employees and their families are given free treatment. There is a women's section in the hospital with maternity and children's wards. A dental clinic, an eye clinic, an ear, nose, throat department and a tuberculosis clinic have also been recently added. The company has opened community centres on regional lines in various parts of the city for recreational and educational facilities for the workers. The amenities provided at these centres include reading rooms and libraries, indoor and outdoor games, lectures and debates and musical and dramatic performances.

In order to disseminate accurate information and to provide new service, the company has provided a Radio Relay Station. Free cinema shows are held at different parts of the town throughout the year except during the monsoons. Two large hotels are being run by the management inside the Works. These are very popular since on an average between 8 to 9 thousand meals and 18 to 19 thousand cups of tea and portions of snacks are sold every day. A number of rest houses for the women employees and creches for their babies have been provided. Under-nourished babies are given milk and biscuits free of charge. The company lays special stress on the provision of educational facilities for the children of their employees. No fees are charged in the primary schools. The company maintains three High Schools, 10 Middle Schools and 30 Primary Schools in addition to 9 Night Schools and one Technical Night School. The total budget of the Education Department is about Rs. 10 lakhs a year. The company has recently resumed adult literacy classes for workers of both sexes. The company fosters the growth of cooperative credit societies. The number of such societies at present is 28 with a paid up capital of Rs. 7 lakhs approximately. In the Works themselves there is a special organisation under a Safety Inspector to prevent accidents. A cinema equipment has been purchased and films are occasionally shown. Greater amenities than are required by the Factories Act are provided for the workers such as the supply of boots, gloves goggles, gas masks etc. In addition to artificially cooled drinking water, a free supply of ice and soda is available.

The Ahemdabad Textile Labour Association spends 63% to 70% of its income (Rs. 40,000) on welfare activities which comprise day and night schools, a residential boarding house

for working class girls, study homes for boys, reading rooms and libraries, physical culture centres etc. Some of the Railwaymen's unions have organised cooperative societies and provided for legal defence, death and retirement benefits and unemployment and sickness benefits. The I. F. L. have organized about 48 centres in the U. P.

THE CONCLUSION :—

It is difficult to deny the usefulness of welfare works from the human, social and industrial points of view. The efforts made in India are, however, very small when compared with their counterparts in the countries of the West. There is need for greater State action and greater enlightenment on the part of the employers. It must be remembered that the exploitation of the labour organisation by the various political parties must be put a stop to. The workers must organise on broad economic issues and must save themselves from outside disruptive influences. The success of every plan of economic development depends, in the long run, on the cooperation of the workers, on their efficiency and adaptability. At the same time, the social emancipation cannot be complete without an amelioration of worker's condition. One thing must be, however, guarded against. The welfare works should not be attempted for favouritism or for diverting the worker's attention from class conciousness. In many cases, works initiated by the employers smell of bad intentions. The employees, on their part, must also be made to realise that strikes are not the sole concern of a labour organisation.

Suggestions for further reading :—

1. Report of the Royal Commission on Indian Labour.
2. Labour Welfare in India : P. S. Locknathan.
3. The Indian Working Class : R. K. Mukerji.
4. The Indian Year Book.
5. State in Relation to Labour in India : V. Shiva Ram.
6. The International Labour Reviews.
7. The Employees State Insurance (Adarkar Committee) Report.
8. Labour Legislation in India : Bose.
9. The Labour Gazettes.

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SOCIAL INSURANCE

Synopsis :—

1. Introductory—Social insurance is giving in return for contributions, benefits upto subsistence level without means tests as of right, it is contributory and compulsory, it is the security offered by society to individuals to prevent the avoidable losses of productive life, it preserves individual dignity and liberty.

2. Characteristics of Social Insurance—it is characterised by a common fund generally out of the contributions of the workers, the employer and the State, there is no close correspondence between the worker's contribution and the benefit that he gets, benefits are within fixed limits, it is on a compulsory basis, social insurance differs from social assistance, the first is only partly financed by the State the latter wholly, the latter is gratis and insists upon means tests, in the former some relation between contribution and benefit exists in the latter it is completely absent, both are essential for full social security.

3. Importance of Social Security in India—the importance is great because of the poverty of the masses, the prevalence of diseases and epidemics, the high maternity and infantile mortality, low expectation of life, unemployment, etc.

4. Development of Social Insurance in India—in 1927, certain recommendations of the I. L. O. regarding health insurance were considered, the Royal Commission recommended health insurance, the 1942 Conference decided upon the preparation of a sickness insurance scheme, Prof. Adarkar submitted his report in 1944, in 1946, the Workmen's State Insurance Bill was introduced and the Adarkar report was adopted with some modifications; the Adarkar Scheme assumes unemployment insurance, old age pensions, pre-medical measures and National Health Drive, it is compulsory and contributory, simple, acceptable and financially sound, the scheme covers permanent, temporary and casual workers and aims at cash payments during sickness, it also envisages the establishment of health and medical centres.

5. The Feasibility of the Scheme—the deputees of I. L. O. had suggested some changes in the scheme, the

scheme for its success depends upon correct certification adequate medical facilities, respect for human element, independent medical service, efficient medical attendance, etc., it is necessary to link Workmen's Compensation with the scheme, there are defects on many scores including maternity benefits, administration etc; in 1948 the Employees State Insurance Bill became law, the scheme covers $2\frac{1}{2}$ million workers, it is a landmark but the position is that it caters for a small number, it is applicable for short period, there are no convalescent benefits and the provision for hospitals is inadequate and unsatisfactory.

6. The Conclusion—complete system of social insurance must include, health, maternity, employment injury, invalidity, unemployment, old age and survivorship, there should be provision for non-employment injuries, in India the various branches of social insurance will be introduced only gradually because of the financial limitations of the workers, the employers and the State.

Introductory :—

Social insurance may be defined as the organisation of provision out of tripartite contributions from the workers, employers and the state for a need which cannot be left safely to the individuals or employer's own resources. In other words, it is a cooperative device which aims at granting adequate benefits to the insured on a compulsory basis in times of unemployment, sickness and other emergencies with a view to ensure a minimum standard of living out of a fund created out of the tripartite contributions of workers, employers and the state as a matter of right of the insured. Sir William Beveridge describes it as the giving in return for contributions benefits upto subsistence level, as of right and without means test so that individuals may build freely upon it. It implies that it is contributory and compulsory and that men stand together with their fellows.

Social security, thus, is the security that society furnishes through appropriate organisation against certain risks and contingencies of life to which its members are permanently exposed. It is the security of the masses among the society who cannot effectively provide by ability or foresight alone against the risks. These contingencies fall under the heads of sickness, maternity, employment injuries, unemployment, old age and death. All these contingencies involve loss of earnings partial or total and benefits under the scheme are made available after certain objective tests of eligibility

which are statutorily prescribed, the amount to be made available being likewise prescribed. The object of such insurance is to prevent those losses of productive life and capacity that can be avoided , to ensure that each makes the best possible use of his or her faculty ; to ensure equality of opportunity with due respect to inalienable values of individual dignity and liberty.

CHARACTERISTICS OF SOCIAL INSURANCE :—

Social insurance is characterized by certain well-marked features which can easily be pointed out. First, it involves the establishment of a common monetary fund out of which all the benefits in cash or kind are paid and which is generally built up out of the contribution of workers, employers and the State. The contribution of workers is merely nominal and is kept at a low level so as not to exceed their paying capacity, whereas employers and the State provide major portion of the fund. Naturally, in such a case, there cannot be any close correspondence between worker's own contributions and the benefits granted to him which is the second important feature of social insurance. Its third feature is that these benefits are kept within fixed limits so as to ensure the maintenance of a minimum standard to the beneficiaries during the period of partial or total loss of income. Fourthly, benefits are granted as a matter of right and without any means test so as not to touch beneficiary's sense of self-respect. Finally, social insurance is now provided on a compulsory basis so that its benefits might reach all the needy persons of the society who are sought to be covered.

Social insurance may be differentiated from social assistance with which it is sometimes wrongly identified. A social assistance scheme is a device according to which benefits are given as legal rights to workers fulfilling prescribed conditions by the State, out of its own resources, Social assistance is supplemental rather than substitutive to social insurance. The scope of social insurance has its own limitations with necessary call for social assistance with a view to establish a complete system of social security. Social insurance is only partly financed by the state whereas social assistance is purely a governmental affair. Secondly, social insurance is granted to those who pay a contribution whereas social assistance is given gratis. Thirdly, social insurance does not insist upon a means test and benefits are granted without it whereas social assistance is given only if certain prescribed conditions are satisfied. Finally, in social insurance some proportional relationship, though remote and indirect, is sometimes sought to be maintained between the contributions and benefits in respect of an individual insured but such a question does not arise in the case of social assistance. The position of social insurance is different from

social assistance. The former is more applicable where the class of workers to be covered is sufficiently well-organized, legally regulated and financially stable, whereas the latter is more suitable if the class of workers to be covered is too poor to contribute, too illiterate to follow the technicalities of insurance and too scattered to be brought under a proper scheme of insurance.

It would be wrong to suppose that social insurance can alone solve the entire question of want, income, maintenance and adequate protection of a minimum standard of living. Social insurance as a matter of fact has a scope narrower than that of social security. Full social security can be secured through social insurance plus the schemes of social assistance e. g. non-contributory pension in respect of old age and invalidity, mother's pensions and unemployment assistance, medical assistance and most recent of all the rehabilitation of the disabled. According to Beveridge, social security can be provided by three distinct methods : social insurance for basic needs ; national assistance for special cases ; voluntary insurance for additions to the basic provision. It remains true, however, that social insurance is the most important practical and modern device of solving the extremely difficult and pressing problem of want.

IMPORTANCE OF SOCIAL SECURITY IN INDIA :—

Advantages of social security are manifold. It possesses certain solid advantages not to be found in other competitive methods. It associates the workers by requiring them to contribute both materially and morally in the protection of their health, efficiency and working capacity and tries to prevent the operation of the causes which result in a partial or complete loss of working capacity. Secondly, it aims at restoring the lost working capacity within possible limits as early and fully as can be done. It implies the establishment of an autonomous institution solely devoted to the triple object of prevention, maintenance and restoration. Its function is to supply the means of subsistence and maintenance during the period of cessation or interruption of gainful activity. It grants benefits in virtue of definite rights and thus preserves the self-respect of the beneficiery (it guarantees the payment of benefits by assigning the definite resources for the purpose.) The provision of such a system must be regarded as the very fundament of economic and social peace and prosperity in every country.

In view of the terrible poverty of the Indian masses, the wide prevalence of diseases and epidemics, the high incidence of maternal and infantile mortality, the low expectation of life, and the misery and destitution caused by unemployment and under-employment as well as by hereditary indebtedness, the case for a programme of social security, whether

based on social insurance or social assistance, is so strong that it needs little proof or evidence. The basic problems of poverty, ill health and illiteracy and economic inefficiency will have to be tackled through appropriate agencies to be created under an all India Plan.

DEVELOPMENT OF SOCIAL INSURANCE IN INDIA :—

The initial spark of health insurance appeared in India in 1927. In that year certain recommendations of the International Labour Office were considered by the Govt. of India, and attention was directed to the possibility of applying the principles of social insurance to sickness. For various reasons the Government decided that health insurance scheme was not possible in the conditions then obtaining in India. In 1930 and 1931 the Royal Commission on Labour made out a strong case for health insurance in India and outlined a scheme. The matter was eventually allowed to lapse because of a lack of expressed demand, In 1940 at the First Conference of Labour Ministers, it was decided to obtain the views of the Provincial Governments and of employers' and workers' associations. All the parties decided to accept the principle of sickness insurance, to be financed by compulsory contributions In 1942 a tentative scheme was drawn up by the Govt. of India which served as a basis for discussion at the Third Conference of Labour Ministers. It came to the conclusion that a draft sickness insurance scheme should be prepared to apply to the workers in the textile and heavy engineering industries.

Consequently, the Govt. of India appointed Prof. B.P. Adarkar to prepare a report on a scheme of health insurance for Indian industrial workers. He submitted his report in 1944 and with its publication the institution of a health insurance scheme in India was placed on a much more solid foundation. The Report is the most significant and comprehensive one so far published in India dealing with social insurance.

The Report further provided the basis of further developments in health insurance. It culminated in the introduction of a Workmen's State Insurance Bill in 1946 in the Central Legislative Assembly. The suggestions of Prof. Adarkar were adopted in the main with some additions and amendments to his original proposals. The original intention of restricting the scheme to workers in the textile and heavy engineering industries has been abandoned and the scope has been enlarged by including all the workers in perennial factories.

Adarkar Report Examined :

Adarkar's scheme makes four assumptions for its success. First, there must be adopted a scheme of unemployment

insurance and the creation of new employments in the post-war period, the establishment of a scheme of old age pensions, the adoption of certain pre-medical measures and finally a National Health Drive. The scheme formulated by him is sufficiently broad-based on certain fundamental principles :—

First, the scheme is compulsory and contributory. Secondly, it is simple, clear and straight-forward. Thirdly, it embodies the existing frame-work of labour legislation as an integral part of the scheme. Fourthly, it is financially sound and is economical in its working. It is likely to minimize disputes and litigation and will lead to industrial peace It conforms to the requiremens of International Labour Conventions and finally it is sufficiently flexible.

The scheme covers permanent, temporary and casual workers and the upper income limit is Rs. 200 which was subsequently raised to Rs. 400 p.m. in the Act and the upper age limit is 60 years. The number of workers estimated to be covered under it is 1200000. As regards contributions, they are payable every month and the agency of collection is the employer. It is to be financed out of the joint contributions of the employers and the insured persons. He recommends that the state should subsidize the scheme but does not make this an indispensable condition. The cash benefits would be available after a qualifying period of six monthly contributions and a waiting period for cash benefits of three days whereas the medical benefits would be available unconditionally. A permanent worker would be entitled to 90 days cash benefits, a temporary one to 45 days cash benefits but a casual worker would receive only medical benefits. There would be a salaried medical service. Industrial areas would be classified under four heads according to the density of population. They would have health and dispensary centres. Medical benefits would be provided through group practice at the health centres having 50,000 insured and ordinary medical services at the dispensary centres having 5000 insured.

THE FEASIBILITY OF THE SCHEME :—

On the invitation of the Govt. of India, the International Labour Office deputed Messrs. M. Stack and R. Rao who examined the Adarkar scheme and visited several industrial centres and discussed the fundamental problems with the various Governments. The chief modifications suggested by them were a fundamental change in the organization of medical service and the integration of the maternity benefits and Workmen's Compensation within the frame-work of the Health Insurance. They proposed the inclusion of non-manual workers on equal terms with manual workers, irrespective of their income, the grouping together of those

branches of insurance which called for a medical service, namely, sickness, maternity and employment injury, the determination of an inclusive contribution for all risks; the provision of a grant from taxation, the treatment of the family as a unit; the adequate grant of cash benefits; and finally a simplification of the rules and administration. The independent medical service as recommended by Adarkar and substantially modified by experts (Stack and Rao) suffers from certain defects. Firstly, correct certification is essential for the success of the scheme. Malingering has got to be effectively checked. The Health Insurance authorities can exercise an effective control towards this end by virtue of their being at the helm of affairs. Secondly, adequate medical facilities can be provided by doctors under the Health Insurance Scheme. Thirdly, the human element which should be a special feature of any Health Insurance Scheme cannot operate to the same extent under a national health service as under an independent medical service. Fourthly, an independent medical service is capable of tackling industrial diseases and suggesting methods for reducing the incidence of sickness. Fifthly, the insured person is more quickly cured as he feels that he is under the treatment of a doctor attached to an organization which belongs to him. The patient's recovery is hastened when he is convinced that he is in the best of hands. Economy in respect of medical service runs counter to the very foundation of such service.

Further, it is necessary to link Workmen's Compensation and maternity benefits with the health insurance scheme as recommended by the experts. Their integration with the health insurance scheme would result in manifold advantages. Firstly, unnecessary and protracted litigation would be cut down. Secondly, the employee can easily prove his claim and the payment would become automatic. Thirdly, the employer would be prevented from placing obstacles in the path of progress of social insurance. Fourthly, medical benefits would be provided to workers direct as the same medical organization can be called upon to look after them. Workmen Compensation system fails to secure the maintenance of necessary income as the lump sum payment fails to provide any permanent source of income. Its inclusion in health insurance would considerably reduce the costs of administration. Finally, the evasion would be reduced to the minimum in an integrated scheme and shifting of claims from one branch to another will not arise.

Similarly, serious defects have crept in the case of maternity benefit as in the case of workmen compensation mainly because the employer alone is made liable for payment of benefits. In the first place, the legislation is neither

quite uniform nor universal so that there are gaps here and there which cannot be said to be fair to the worker. Secondly, only cash benefit is provided at present and no provision of medical benefit of any kind exists, the worker being left to her own resources. Thirdly, evasion is widely prevalent. Dismissal of the female worker at the first sign of pregnancy or its threat is not uncommon. Maternity benefit legislation is likely to produce an adverse effect on employment.

The administration of the scheme of workmen's State Insurance shall be entrusted to a corporation to be called the Workmen's State Insurance Corporation. The functions of the corporation shall be performed by a Central Board consisting of 29 members in all including the Labour Minister as Chairman Further, a standing committee of the Board shall be constituted likewise by the Central Govt. consisting of 11 members in all with Government nominee as chairman Again, a Medical Benefit Council shall be constituted consisting of 11 members including the Director General of the Indian Medical Service as chairman. This Council will advise on matters connected with the administration of Medical Benefit and the certification of sickness. The Central Government may appoint a Director General of Workmen's State Insurance, an Insurance Commissioner, a medical Commissioner a chief Accounts officer and an actuary for the Corporation. The corporation may set up such bodies as Regional Boards, Local Committees and Regional and Local Medical Benefits Councils to function in their own areas.

The Implementation of the Scheme.

The Employees State Insurance Bill had been passed into an Act in 1948 and the Corporation has already been constituted with thirty one members nominated by the Central and Provincial Governments. The scheme covers nearly $2\frac{1}{2}$ million workers. Expenditure under the scheme will amount to Rs. 6—per head.

Though the Act is to be deemed an important land-mark in the history of Indian Labour Legislation yet a considerable leeway has got to be covered in the matter of social security programme. Moreover, the Act suffers from certain serious drawbacks. Firstly it caters to a very small proportion of the total population. Secondly, the cover for sickness cash benefit ceases after eight weeks even if the insured continues to be ill. Thirdly, there is no provision for convalescent home benefits and dental benefits. Indoor hospital treatment is included as a benefit under the scheme but the existing facilities for indoor hospital treatment are very defective. Provincial hospitals are inadequate to meet the needs of the population.

THE CONCLUSION :—

A complete system of social insurance should consist of (1) health insurance (2) maternity insurance (3) employment injuries insurance (4) invalidity insurance (5) unemployment insurance (6) old age pension insurance and (7) survivorship insurance. The schemes prepared and discussed above in regard to the first three branches have also entered a practical phase. With regard to the remaining branches, no work has yet been done excepting the institution of Provident Fund Schemes in some basic industries like the coal mining industry.

The next step should be the provision of protection against non-employment injuries. There is no reason why injuries "arising out of and in the course of employment" be covered and not those outside employment, when both create indentical problems to the victims and logically require indentical benefits. Moreover, no new organization will have to be set up for this purpose.

In the third stage, unemployment insurance may have to be introduced. It has already been observed that the recognition of the principle of unification and the establishment of a net-work of employment exchanges have created favourable conditions for unemployment insurance in this country. The scheme shuld be unified and should cover a large universe, for as the area of risk coverage increases the risk becomes more predictable and its incidence is reduced. The aim of the scheme should be to give unemployment benefit without any time limit, just as a worker after exhausting sickness benefit can rely on invalidity. The unemployed should be given the unemployment benefit till he is re-employed. Unemployment benefit will be a cash benefit but it should be associated with a rehabilitation and retraining service so that an unemployed may be trained for another job. The unemployment service in the beginning will have to be limited in its scope and application to regulated workers and in duration of benefit availability because of financial limitations.

Unemployment insurance may be followed by invalidity pension and later survivorship pension insurance. Finally, we may introduce old age pension insurance. This is certainly the most costly branch of social insurance as after 20 years of the working of Beveridge Plan, nearly 54% of the entire finances shall be absorbed by retirement pensions.

The various branches of social insurance in India will be introduced only gradually because of the financial limitations. For the fundamental factor which must govern the speed and scope of social insurance in India is the paying capacity of the worker's, employers and the State which, in each case is low and will grow at a slow rate. It is only with the adoption

of a planned programme of economic development that our national income will begin to increase and then alone speedy and extensive progress in this direction is possible.

Suggestions for further reading :—

1. The Beveridge Plan.
2. The Adarkar Committee Report.
3. State in Relation to Labour in India: V. Shiva Ram.
4. The Workmen's Compensation Act.
5. The Employees State Insurance Bill.
6. Report of the Royal Commission on Indian Labour.
7. The Indian Working Class: R. K. Mukerji.

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EMPLOYMENT EXCHANGES

Synopsis :—

1. Introductory—employment service implies free public employment agencies adjusting the supply of labour to its demand, such a service replaces the private fee-charging agencies.

2. Objects of the employment service—it is responsible for finding suitable jobs, it ensures mobility of labour, it eliminates labour turnover, it propagates information on employment which is done in England by the labour unions, it reduces frictional unemployment thus facilitating a planned programme of labour utilization, the modern idea is not to have a reserve of manpower for emergencies but to have a reserve of work, the employment exchanges are important agencies for ensuring full employment, such services also cooperate in unemployment insurance and social assistance, they confer indirect benefits in the political and social fields as well.

3. The I. L. O. Convention—the proposed convention of 1947 suggests the establishment of the service under a central authority, it recommends cooperation between the service and the organisations of workers and employers and specialisation for finding jobs for different categories of workers, the Convention recommends coordinated national administration, drawing of man-power budgets, development of international cooperation for exchange of information, public nature of the services and their indifference to the friction between the workers and the employers, the question of charging fees is debatable, employers must be induced to utilize the service.

4. Employment Service Organisation in India—India ratified I. L. O. convention on unemployment in 1921 and the Royal Commission recommended such services in 1931 but no action was taken, in 1938 the I. L. O conventions was denounced and a number of Committees recommended establishment of employment services, first employment exchange was set up in 1943-44 to meet the war-time shortage of labour, in 1945 the need was felt to settle ex-servicemen and a net—work of exchanges was established to find jobs for ex-service men, to increase mobility of labour, to evolve better system of recruitment,

to help social security schemes and to promote full employment, a Directorate General of Resettlement and Employment was created in 1945, in 1947 there were 70 exchanges, 1 central, 9 regional and 60 sub-regional, with the formation of Pakistan, 2 regional and 16 sub-regional went to her, after that some new ones have been established; the exchanges have done a good deal in finding jobs, they have taken up for training of workers, they are likely to be of great use in future.

5. The Conclusion—they can be of great use to planned economy, they will ensure the success of social security and social assistance schemes, there is need to coordinate them with Colombo Plan and the U. S. Point Four Programme.

Introductory :—

A National Employment Service means the establishment of free public employment agencies which can help in the adjustment of the supply of labour to the demand therefor. It means the elimination of private agencies in the matter of supplying labour, because experience has shown that private agencies work to secure sectional advantages and do not look to the interests of the community as a whole. Even when employers' and workers' associations have replaced fee-charging employment agencies conducted with a view to profit, the national cause is not advanced because the former tends to uphold their particular interests. It is only in a National Employment Service, i. e., in a service offered by free public employment agencies set up by the State, that the divergent aims pursued by employers and trade unions converge and the public interest takes its rightful place.

OBJECTS OF THE EMPLOYMENT SERVICE :—

The duty of the service shall be to ensure, in cooperation with other public and private bodies concerned, the best possible organization of the employment market as an integral part of the national programme for full employment and the development and use of productive resources. Arising out of this essential task, a host of functions shall have to be performed by the service. First, the service should be responsible for assisting workers to find suitable employmen and employers to find suitable workers and, accordingly, t develop rules for registering job-seekers and analysing thei occupational qualifications, for obtaining details of job vacancies, for referring workers to available employment and fo organizing an effective system of labour clearance. Secondly the employment service promotes the mobility of labou

necessary to meet employment market conditions, the service is assigned the task of facilitating geographical and occupational mobility of workers with a view to adjusting labour supply to demand in the different areas and occupations. There are many ways in which Public Employment Offices promote the mobility of labour. They bring employment seekers in close and effective touch with employers so that unnecessary waiting and time-lag are avoided. They are to the advantage not merely of workers but of employers as well as they do away with middle men and jobbers and place before employers exactly the type of men they require. They are also of help when the instability of labour is due not to faulty economic or industrial organization but to defects in the particular undertaking resulting in a rapid labour turnover.

Pigou observes that work people often find themselves not merely employed at work relatively of low demand but unemployed altogether. The loss to national dividend, in the latter case, is far greater than in the former. This can be avoided in both cases to promote the interests of national dividend through the agency of a national employment service by requiring the work-people to move from employment in one place or occupation to employment in another.

Thirdly, the employent service is to collect, analyse and make available as much information as possible on employment market conditions and trends, thus specifying a basic responsibility of the service in the whole economy. In the absence of any informing agency, their ignorance about available vacancies would compel them to make a haphazard and unguided search for work. They may wander aimlessly round to all the firms whether they have or do not have vacancies to offer. Their ignorance is sometimes reduced by the general information available about the state of demand for labour in various places and occupations. Such information is obtained from newspaper advertisements, the talk of friends, and reports collected by the trade unions. The trade unions maintain vacant books. Each man, as he becomes unemployed, writes his name in the vacant book at the local branch office. Then the search for job for him becomes the concern of all the members numbering hundreds. Collective efforts in place of individual facilitate the engagement of the out-of-work members. All members are on the look-out for a job to clear the vacant book. Some unions in England pay a small sum to those who will take the unemployed men off the books, a heavy fine is imposed on those known to be giving preference to non union men. The out-of-work members are informed by the secretary of the union where they are likely to be wanted and where best to look for jobs. Labour gazette and more recently the employment exchanges provide this kind of information in a

more widely accessible form. When the exchanges of different towns are inter-connected, the workmen are brought into cantact with a still wider range of information. Want or superfluity of labour in one place is immediately known in all the others by a system of inter-communication linking up the agencies in different parts of the German Empire. It is evident that an organised system of this character may serve as a powerful instrument for facilitating the movement of work-people out of jobs to vacancies having need for them.

The knowledge of available man power in the possession of the employment exchanges is much greater than that in the possession of any individual employer. Many employers will not stop to think of this matter dispassionately as they consider that their own methods are more than adequate. It is doubtful whether any employer now would need convincing that a bank has access to greater funds than he has. Why not regard the employment exchanges, as Manpower Banks. If regarded in this way, and they undoubtedly are manpower banks, no employer would think twice before going to them for his work people.

Fourthly, it is true that public Employment Offices can do little or nothing to solve the problem of unemployment, i. e. unemployment caused by general economic disequilibrium but they certainly alleviate frictional unemployment. Moreover, only these institutions can draw attention to the volume and nature of unemployed labour at any particular time so that the State can take suitable steps for its productive utilization. When as a result of technological changes or natural disinclination workers are involved in occupational changes, only a well organized Employment Exchange Service can provide the necessary data regarding these changes, from which a planned programme of effective utilization of labour can be worked out. Any kind of advance planning whether it is a public works policy or the setting up of new industries, has to be based on accurate and scientific data of available manpower which only public Employment Offices can supply.

The idea about the organization of national economy and employment market have changed greatly. Three decades back unemployment was considered inevitable, in fact almost a necessary evil of modern industrialism. In order to ensure economic development it was considered indispensable to have a certain fluidity in the labour supply and a certain reserve of manpower. The aim of the employment service was to reduce the number of unemployed by reducing the amount of this reserve. To-day, these ideas have been reversed. Now one considers not only the possibility but the necessity of organizing the economy in such a way that instead of there being a reserve of unemployed workers waiting for work, there should always be a reserve of work

waiting to be done. The economy must no longer be dominated by the material factor (volume of production) but by the human factor—the worker by whom and for whom wealth is produced. The old scourge of unemployment must be eliminated in an economic order which will ensure full employment for all workers in the development of this potential wealth.

The employment exchanges are made responsible for cooperation in unemployment insurance and social assistance administration and with the application of other measures aimed at the relief of the unemployed. Finally, the wider contribution of the employment service to the community is emphasised by placing on the service the duty of assisting other public and private bodies in social and economic planning aimed at ensuring a favourable employment situation.

The employment service confers benefits indirectly on the community in the political and social fields as well. When the different countries of the world were working out their schemes of rapidly resettling, in civilian occupations, their demobilised services personnel, they realised that a state of economic uncertainty for the large masses of men and women trained for concerted action in war would be the gravest danger to social and political stability and economic rehabilitation. It should be realised that this danger from a large mass of young men and women specially in these days of widening of outlook and of expanding education is no less potent and disruptive. Thus, the problem of finding useful employment for the stream of youth attaining employable age is not only an economic one but also a political and social one.

THE I. L. O. CONVENTION :—

Structurally, the points adopted by the 30th session (1947) of the Conference (I. L. O.) for the proposed convention suggest the organization of the employment service as a national system under the control of a central authority and including a net work of local offices sufficient in number to serve each geographical area of the country and conveniently located for employers and workers. They emphasize the need for close cooperation between the employment service and representatives of employers' and workers' organizations and the desirability of establishing advisory committees for this purpose. It is urged that employment service work should be specialized as necessary and practicable to meet the needs of the different industries and occupations and of particular categories of job seekers (disabled) and particular reference is made to the need for special arrangements including provision for vocational guidance for juveniles. Full use of employment service facilities on a voluntary

basis and the promotion of effective cooperation between the public and non-profit making service agencies be encouraged.

The methods for the application of the above principles to be adopted are, as recommended by the Conference, the securing of unified and coordinated national administration for carrying out basic functions of employment service (promoting labour mobility) necessary to achieve maximum production and employment). Secondly, the employment service should draw up man-power-budget annually in cooperation with other public authorities. The employment service should be represented on the coordinating machinery set up to deal with a variety of economic and social problems (location of industry). Finally, the development of international cooperation among the employment services in regard to such matters as the exchange of information and experience gained in other countries and the organization of conferences on problems of special concern to these services should be attempted. To make this institution still of greater service to the community some more suggestions may be noted. Experience of other countries shows that if they are to win an extensive clientege they should be public—not run as a private speculatiou by fraudulent private persons. They should be managed jointlv by representatives of the employers and the employed. They should take no notice of strikes and lock-outs but simply allow each side post up that stoppage of work exists in such and such establishment. They should be wholly separated from charitable relief otherwise they will become unpopular. They should be given prestige by municipal or state authorization and be made exclusive agency for engaging work-people recognized by public authorities.

The question of charging fees to the work people is debatable. The charging of fees is by far the most effective method of keeping away those who are not really in search of work and makes exchanges more attractive to employers. To make them so, the registration at an exchange of all work people out of employment should be made obligatory. The State, if it contributes to unemployed benefit paid to each trade unionist, may well require him to register his name and report himself to the local labour exchange in addition to entering his name in the vacant book of his union.

The employers may further be induced to utilize exchanges for recruiting labour if the state makes a slightly reduced charge to them for the insurance of their workmen both against sickness and unemployment. A drastic arrangement would be to provide by law that employers and workmen should never enter into a contract of work without reference to an exchange. All these devices tend to break down

ignorance of the conditions of demand for labour, hence to lessen unemployment and to increase the national dividend.

EMPLOYMENT SERVICE ORGANIZATION INDIA :—

India ratified the I. L. O. Convention on unemployment in 1921 but it was not implemented by the establishment of employment agencies. The primary reason for this was a feeling that as the demand for industrial labour was then exceeding the supply, employment agencies would serve little useful purpose. A decade later in 1931 the Royal Commission on Labour in India dealt a crushing blow to the idea by expressing the opinion that during a period of depression, the setting up of Public employment agencies would be of little avail in the face of huge surplus of labour waiting for work. Thus, in 1921 the establishment of exchanges was negatived because the demand for industrial labour exceeded the supply and in 1931 because the supply of industrial labour exceeded the demand—an interesting contradiction in ideology.

In 1938, India had to denounce the I. L.O. convention because no uniform policy on the subject was practicable in view of the transfer of responsibility for unemployment to the Provincial Governments. The Cawnpore Labour Enquiry Committee (1938) the C.P. and Berar Textile Labour Enquiry Committee (1938) and (1941) and the Bombay Textile Labour Enquiry Committee (1940) expressed the belief that Public employment exchanges would be able to remove the prevalent evils of bribery and corruption which resulted from the existing methods of recruitment.

The first employment exchanges in India were set up in 1943-44 because of a need to overcome the acute war-time shortages of technical personnel. They functioned under the control and supervision of the National Service Labour Tribunals which were established in 1940 to ensure an adequate supply of skilled technical personnel to meet the demand of industry.

In 1945, the responsibility for the resettlement of ex-service men was transferred to the Labour Department of the Government of India which decided to set up a net-work of employment exchanges all over the country to undertake and assist in the task of resettlement of the demobilized soldiers and discharged war workers. The broader and long-term objectives of the employment service, even though it was born under the stress of the war, were kept in view in formulating the plans. The objectives may be summed up as follows:—(1) to place ex-service men and war-workers and ultimately all workers in employment; (2) to increase the mobility of labour, territorial and occupa-

tional; (3) to substitute a free, impartial and scientific system of recruitment of labour for the vicious system in vogue which was condemned by the Royal commission on labour ; (4) to provide the necessary machinery for the subsequent adoption of social security measures by the state; (5) ultimately to promote full employment.

A Directorate General of Resettlement and employment was created in July 1945, charged with the specific responsibility of administering the resettlement and employment schemes of the Government. A number of Directorates were created as wings of the Directorate General with suitable provision for planning, training (technical and vocational, administration and statistics, publicity and welfare etc.) The whole country was divided into nine regions, each under the charge of a regional director with a compliment of subordinate officers and staff. The execution of the resettlement and employment policy within the regions was the responsibility of the regional directorates, the Director General exercising control and supervision by way of formulation of policy, direction of operations, financial control and otherwise. It also serves as a coordinating link as between the regions and ensures uniformity and coordination in policies.

The original set-up of the Regional Organisation underwent a change as a result of the division of the country, and the territorial redistribution occasioned thereby. In undivided India there were 70 employment exchanges—one Central, nine Regional and sixty Sub-regional. As a result of partition, two Regional and 16 Sub-Regional exchanges were transferred to Pakistan leaving seven Regional, 45 Sub-Regional and the Central clearing to the share of the Indian Dominion. One Sub-Regional Exchange has since been raised to the status of a Regional Exchange while two new Sub-Regional Exchanges have since been opened.

At each Regional Employment Exchange there is an appointments breach and also a women's section under the supervision of Lady Assistant Managers who deal particularly with women's problems. In addition to the exchanges, there are District Employment Offices in the Madras Province and the East Punjab to discharge the full functions of employment exchanges in each revenue district where an employment exchange has not been established. There are besides, 132 employment Bureaux whose object is to establish contact with ex-servicemen in widely scattered rural areas and to bring them into touch with the exchanges. There are also 22 mobile sections of employment exchanges which help in stepping up registrations and placements by undertaking tours in remote areas and contacting the demobilized.

The Achievements.

Though its achievements in the field of resettlement and employment of ex-service men and displaced persons have been substantial, the organisation's success with regard to the employment of the civilians, irrespective of any class or category, has been no less striking. Employment Exchanges in India have, by progressive stages, extended their scope so that now they are open everywhere to all who seek their assistance.. The following table will show the progress made by the National Employment Service.

Year	Registrations	Placings Male.	Placings Female	No. of Employers using Exchanges.
1945 (half-year)	51306	9780	98	701
1946	569872	106208	435	3182
1947	629961	161374	1399	3842
1948	870904	260088	7213	3999
1949 (half-year)	663936	163937	7576	5274

Among other usual functions, the training schemes of the Directorate General of Resettlement and Employment are an integral part of the employment service in India. The alarming shortage of skilled manpower in India with her industrial backwardness demanded considerable advance. On the recommendations of the International Labour Conference, the Directorate General has evolved a comprehensive plan of training which is a unique feature of our National Employment Service. Without the provision of trained manpower, our post-war-plans of economic reconstruction and industrial development cannot have the least chance of success. It is therefore, impossible to get a clear perspective of the employment service in this country without reference to its training schemes. The problem of proper distribution of manpower and the utilization of productive resources which are the basic objects of the service are inextricably bound up with the question of proper training of manpower for the varied requirements of the employment market and the industries present and future. In the context of Indian conditions these training schemes are not only an essential compliment to the employment service, but very much more. In India they represent the first planned effort on a national scale to bring technical and vocational training within the reach of a large number of people.

THE CONCLUSION :—

Properly expanded and adequately coordinated to the requirements of the country, therefore, the Employment Exchange Organization already set up in India can be harnessed to the best use of a planned economy. It can assist in the execution of an accelerated programme of development and it

can also provide the frame-work within which social assistance schemes can be worked out. We are getting technical assistance under the Colombo Plan and the U. S. Point Four Programme. It will be advisable to coordinate these schemes with the employment exchanges. The exchanges, if properly utilized must ensure the success of the plan we have in view. The rapid development of the service together with the changed policy towards labour must do a lot of good to the country.

Suggestions for further reading :—

1. The Indian Year Book, 1950.
2. Economies of Welfare: A. C. Pigou.
3. The I. L. O. Conventions.
4. Report of the Royal Commission on Indian Labour.
5. Report of the Cawnpore Labour Enquiry Committee.
6. Report of the Bombay Textile Labour Enquiry Committee.
7. The Labour Gazette.
8. Reports of the Directorate General of Resettlement and Employment.
9. Proceedings of the International Labour Conferences.

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THE PROBLEM OF INDUSTRIAL PEAC

Synopsis :—

1. Introductory—industrial unrest is puzzling the politicians throughout the world, it is due to the conflicting interests of labour and capital, the society looks upon the strikes despite their harms leniently because they are thought to be the only way of redress for the worker; in India present unrest is due to economic factors created by inflation, it is also due to the profit-mania of the producer, political causes of strikes emanate out of Marxian philosophy and exploitation of the trade unions by political leaders rendered easy by the ignorance and illiteracy of the worker.

2. Factors Conducive to Industrial Peace—they are : policy of collaboration between the workers and the employers, which depends upon faith and good-will and which should be bilateral, the workers and employers must be educated in the social and economic importance of industry, the Bombay Industrial Relation Act is a good attempt, improved environments and contentment will go a long way, workers must be given security, industrial relations ought to be based upon compromise and adjustment in India, employers must know that wages are low.

3. Industrial Truce in India—to avoid fall in production in 1947 the Government laid down the following terms of truce :—to make full use of the machinery for resolving disputes, to establish machinery to determine fair wages, etc. for labour, the constitution of works committees, to give immediate attention to the housing of the workers; the truce was not worked in the right spirit, trade unions must be developed on sound lines, politicians, grip over labour organisations is injurious.

4. How to Promote Industrial Peace—one way is profit-sharing which has been recommended in India on an experimental basis but its incentive value is small and friction is not reduced, nationalisation is another way but experience in India is none too happy, in India a social security plan will be very helpful, ensuring of a living wage and housing are very desirable.

5. Machinery for Settling Labour Disputes—these are mediation, conciliation, arbitration and investigation, the first two are almost synonyms, the mediator is not a judge, he only tenders advice, the conciliator can bridge the gap between the opposing viewpoints, arbitration is more judicial than diplomatic, it involves the existence of a person, board or court, it may be either voluntary or compulsory, the arbitrator always gives a decision.

6. Machinery for Industrial Peace in India—the Trade Disputes Act of 1929 was the first legislation, it proved a failure, there were two acts in Bombay, the Bombay Industrial Disputes Act (1938) and Bombay Industrial Relations Act (1946), the last introduces compulsory arbitration, the Act has aroused criticism, but in the present conditions in India compulsory arbitration can be useful.

7. The Conclusion—the agencies securing industrial peace can be envisaged as below: Works Committees, Labour Officers, Labour Unions, Wage Boards, Compulsory Boards of Conciliation, periodical conferences between workers' and employers' representatives, industrial tribunals and industrial courts, the last two have become objects of criticism in India mainly because there have been conflicting decisious on similar points.

Introductory :—

The sudden outburst of industrial unrest almost simultaneously throughout the world has puzzled politicians, social thinkers, employers and laymen alike, its implications have a deeper social, political and economic significance. Since the advent of the industrial revolution and subsequent advance of Marxian philosophy, the social existence of man has been classified as between have's and have-nots, exploiter and exploited, labour and capital. The conflict between these antogonistic forces manifests itself in strikes, lock-outs and other types of industrial disputes. This declaration of class-war means loss of wages, hunger and all its attendant miseries and sufferings to the striker, financial loss to the employer, reduced sale to the shop-keeper, extra worries to those incharge of law and order, excitement and inconvenience to the general public and huge economic loss to the nation. But, inspite of these hardships and sufferings, strikes have been viewed rather leniently and with a spirit of tolerence by the community. Such an attitude has developed from the belief that they are the only means to secure the redress

of grievances and modifications in the existing appalling condition of labour. An average worker with family responsibilities is sobered by the thought of mounting and progressive miseries. Therefore, he strikes work when he feels or is made to feel that he has grievances by the side of which these sufferings and privations pale into insignificance. He has a right to offer his services at any price he chooses and if this right is outlawed, his position is reduced to that of a slave.

Importance of the Problem in India.

In the present day inflated national economy, the primary cause of strikes remains economic. It is a fact that there is a vicious circle woven round higher prices and wages in which wages remain under perpetual handicap. The disparity between prices and wages is such that dearness allowances and other bonuses are unable to bridge the gap. It is also argued that wage rise tends by itself to create an inflationary force; as such a price stop could only be obtained by a wage-stop. Then again, pre-war wages in India were lower that minimum requirements of living; and they varied widely not only from place to place and from industry to industry but even from one industrial unit to another in the same industry. The movement in wages has been on the whole unplanned and has followed different lines in different industries and different centres. This situation has given the longest handle to all trade union workers, for a class conflict. Congress Committee's resolution on labour strikes states that "no lasting solution of these difficulties will be available so long as a definite policy regarding a future price structure does not shape and an orderly and first basis is not provided for the economic relations in the country". There is another economic cause of strikes that labour is the most fundamental factor in the creation of values and prices. The workers feel that there is no effective ceiling for the profit-mania of the capitalists Why then, they argue, should the poor worker be expected to limit his demands? There is, of course, no denying the fact that wages and profits should be both subject to Governmental control.

Political causes of strikes emanate from the inspiration provided by the Marxian philosophy believing in the inevitability of the directorship of the proletariat or the establishment of the worker's state. The present policy adopted by the labour leaders leads one to the conclusion that their objective is not only to secure a decent living standard related to the national economy but also to capture political power and then fashion a social order of their liking. The real proletariat of India are the landless agriculturists who outnumber the industrial workers overwhe-

lmingly. It will, therefore, be unjust and unwise that the interests of an important majority may be subjected to the will of a minority of industrial workers simply because the latter are more vocal and organized than the former. Another important political cause is that an ambitious politician finds the right material in the Indian working class to give him an organized following which could be exploited for serving his political purposes. In short, a large number of strikes are symptomatic of the political unrest in the country The political exploitation of the worker is due to his lack of education, illiteracy and ignorance. Here, the primary consideration of economic functions of trade unionism gives way to political influence at the cost of the larger interests of the workers.

FACTORS CONDUCIVE TO INDUSTRIAL PEACE :—

Apart from what has been said above there are other factors, though of somewhat minor importance, which can promote peace in industry.

A policy of active collaboration between emoloyers and employed followed in other countries and reiterated in a resolution of the 11th Conference of the International Labour Organization, resulted both in an improvement in the level of real wages and working conditions, and also in greater and more economical production to the benefit of the community as a whole. This means both the parties must willingly and actively cooperate in the sacred cause of augmenting the national dividend. This cannot be achieved by mere mechanical devices; for in industrial as in international negotiations perfection of machinery counts for so little, the existence of good faith and good will for so much, nor can it be realised by merely increasing the monetary reward; for "the sense of deprivation which has resulted from loss of independence can be compensated only by a realization of a partnership in a greater enterprize and a greater adventure than man ever undertook in isolation. The realization of partnership is not only or even mainly a matter of monetary reward, it is a question of human dignity; it is what differentiates the worker from the machinery."[1] But to-day a deep-seated distrust mars industrial relations. Workers and industrialists regard each other's interests as hostile and conflicting. Employers fear the growing menace of trade unions and the latter regard all restraints upon their activities as obstacles imposed by a pro-capitalist government bent on destroying them. This distrust based on the doctrine of class-war is never conducive to peace in industry. Employers should respect and encourage trade unions as partners in a great social enterprise. Cooperation loses its meaning if it is unilateral. Labourers should recognise the present

1. Kirkaldy, H. S : The Spirit of Industrial Relations, 1947, p. 5.

structure and abandon the pernicious philosophy of class-war in favour of a strong faith and confidence in gradual progress. Both employers and labourers should regard the place of industry as centres of community life and the relations therein can become harmonious, "if industry were prepared to devote a fraction of the time, effort, study and financing now expended on technological research in human relation."[1] This mutual trust and harmony will develop if the following methods are adopted :—

Firstly, the workers and employers must be educated in the social and economic importance of industry. A great deal can be done in this direction by the Joint Committees of Labourers and Employers provided for in the Bombay Industrial Relation Act of 1946—47 and by social service organizations. According to Sir James Doak, "the great object to be aimed at is the building up of a self-respecting responsible healthy body of workers."[2] A voluntary Social Service Organization should conduct adult education centres and inculcate among the labourers the right kind of attitude towards their problems. These organizations can work as liaison agencies between the workers and the management and thus all minor differences can be settled voluntarily in a spirit of mutual confidence and goodwill. We must not forget that minor complaints on accumulation grow and flare up into srikes which spread like an epidemic.

Secondly, there is no better means of education than the one inspired by improved environments and contentment. The former implies the provision of adequate residential accommodation for workers, educational institutions for their children, medical aid for all, parks and playgrounds for spending leisure hours. In a word, industrial concerns should become healthy centres of social life. Labour discontent is not merely the result of dissatisfaction with environments. It also springs from the want of security, independence and responsibility. Labour is excluded and isolated from management. Retrenchment and re-employment, dismissal and disciplinary actions are subject to the arbitrary will of the employers only. The sense of insecurity and the fear of unemployment make the workers loyal to the trade unions through which they can collectively fight and bargain with their employers. The case of an individual member becomes the concern of the community of workers. In order to remove this fear and conflict, there can be no better remedy than a policy of full employment and a programme of social security. If these two objects can be realized, peace in industry will become an accomplished fact.

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1 While, W F. . Industry and Society, pp. 196-197.

2 Doak, J : What Employers can do to better Industrial Relations, p. 199.

Industrial relations ought to be based upon compromise and adjustment. No party should be obstinately rigid in asserting its claims. The employers should be conscious of the changes that are taking place in the socio-economic life of every country and should, therefore, be willing to sacrifice some of their interests. The labourers should not try to take unfair advantage of the favourable circumstances in which they are placed. They ought not to assert their claims dogmatically. Thus, they can stretch the hand of friendship towards their employers and thereby work together in a spirit of mutual cooperation serving not only their own interests but the interests of the general mass of consumers as well. So far as India is concerned, the employer must be prepared to admit that the workers' wage is positively lower than what it ought to be. He should not grudge the enhancement of wage by State legislation. At the same time, the worker must accept that the employer plays a useful role in production and that his share of national dividend should not be unduly infringed with. If there is a proper understanding between these two so-called contending parties we will eliminate industrial strikes, and always live in a state of permanent industrial peace.

INDUSTRIAL TRUCE IN INDIA :—

The Government of India were able to forge an industrial truce between capital and labour in December 1947 in order to avert a decline in production. The terms of the truce were as follows :

(a) That the fullest use should be made of statutory and other machinery for the resolution of industrial disputes in a just and peaceful manner and where it does not exist it should be created without delay. Such machinery should, as far as possible, be of a uniform pattern throughout India.

(b) The establishment of machinery, central, regional and functional, for the study and determination of fair wages and conditions of labour, and fair remuneration for capital, and methods for enlisting the cooperation of labour in all matters concerning industrial production such as the formation of central, regional and unit production committees.

(c) The constitution in each industrial undertaking of works committees, representing management and duly elected representatives of labour for the settlement of the dispute which may arise from day to day.

(d) That, as a first step towards improving the standard of living of workers, immediate attention should be devoted to the housing of industrial labour the cost of such housing should be shared in suitable proportions between the government, employers and labour; the share of labour to be realised in the shape of reasonable rent.

Why it could not Succeed ?

The number of strikes recorded during the first quarter of 1948 shows that the industrial truce is not being worked in the proper spirit.

The development of trade unions on sound lines should be encouraged. It is essential that trade unions should build up adequate funds through regular subscriptions and develop social welfare programmes and also promote solidarity among workers. Another essential condition for the growth of healthy trade unionism is the necessity of concentrating more on economic objectives rather than on political ones. No body would deny that trade unions in modern times profess and preach political ideals which extend in scope from the preservation of private competitive capital to the overthrow of the present regime by the proletariat. Apart from the political aims and objectives, experience has shown that for healthy growth the trade unions must cooperate in the industrial field for achieving the highest standard of efficiency. They must employ the strike weapon for the betterment of economic conditions only. Constitutional methods should be followed for effecting fundamental changes in the economic and political structure of the country. The Bombay Industrial Relations Act is a great contribution towards the development and regulation of trade unions in the country and confers certain privileges on them and, in return requires them to fulfil certain obligations in the interests of industrial peace.

Politicians secured a grip over the labour movement in its later stages and exploited it for their own ulterior ends. If the leaders of the movement are drawn from the rank and file of workers, they will understand the needs of the working class better and there will be greater conformity between the real interests and aspirations of the class and the policy of the movement.

HOW TO PROMOTE INDUSTRIAL PEACE :--

To promote industrial peace, the improvement of the economic condition of the worker through the scheme of profit-sharing is suggested. Profit sharing has the advantage of making the industry the joint enterprise of the workers and the management provided both stand on equal footing and share profits equally. But the delay in paying the workers' share till the end of the year and withholding immediate return are a hardship that cripple both labour and industry. Even this scheme is not without practical difficulties. To ask the labourers to share the losses without a share in the top-level management of industry is unfair. Profit-sharing succeeds in a business with a fairly steady profit experience, and also in small plants if the workers are intelligent and skilled and if the arrangement approaches a partnership. A Com-

mittee recently appointed by the Government of India recommended that the scheme may be tried "on an experiment basis for a specified period in selected industries" The scheme suggested by the committee may be given a fair trial for it satisfies both labour and industrialists, adjusts wages to prices, and provides an incentive to labour to work hard and efficiently without frivolous and frequent recourse to strikes. An extensive examination of the scheme shows, however, that its incentive value is small and that it is likely to generate friction and strife between the employers and the employees.

Nationalization of industries is another radical suggestion for promoting industrial peace. As industrial disputes are inherent in any scheme of capitalist system, based on private ownership and management of industries for profit, such disputes can only be prevented by nationalization. Under the new system, interests of the society will be paramount and fair standards of wages and conditions of work will be ensured to the workers in the same way as for employees in the civil service.

It may be conceded that the condition of labourers would substantially improve under a system of nationalization, but in this connection Prof. H.S. Kirkaldy observes that. "There can be no greater fallacy than to assume that by some alteration in the ownership and control of industry whether the ownership be public or private—the problem of industrial relations can be solved overnight." Nationalization may have the effect of minimizing disputes but cannot prevent them outright as shown by the strikes in the Railway and Post & Telegraph departments. Experience of recent strikes in the nationalized industries of England confirms the correctness of the above view. Moreover, in a scheme of nationalization, administrative efficiency and incorruptibility of services are essential pre-requisites for success. These are at their lowest level in India at present.

In the present state of political and economic conditions, strict supervision, regulation of wages and conditions of wages and conditions of work will promote peace and prosperity. The social security plan aims at a compromise between 'haves' and 'have nots' by securing, as far as possible, a transfer of a portion of wealth from the former to the latter in order to allay the growing tempo of industrial unrest in the modern set-up of society. This scheme does not envisage any revolutionary change in the existing economic system. In brief, it aims at an equitable distribution of the profits and burdens, gains and hazards of an industrial civilization. The Social Security Plan usually comprises, security for employment, security of reasonable

working conditions, security of income while unemployed, security of retirement income, security of recreation, medical and hospital assistance and finally security of family in the case of accident, invalidity, ill-health or even death. India urgently needs a Social Security Plan because of the inequitable distribution of our national income under the conditions created by the War. Top priority should be given to a minimum-wage policy. This must be followed by the sickness and unemployment insurance schemes and the like.

The necessary conditions for maintaining peace in industry may be created by ensuring a living-wage for all, provision of proper housing and institution of social security measures. The inflation running amock and the cost of living rapidly soaring up must be controlled and prices should be stabilized. Intimate collaboration between capital and labour, the liberal recognition by employers of healthy trade unions, a suitable machinery to deal with industrial strife—these are some of the other conditions essential for maintaining peace in industry.

MACHINERY FOR SETTLING LABOUR DISPUTES :—

Government intervention in industrial disputes may take various forms, the most common of which are mediation, arbitration and investigation. The Government may induce or force the disputants to accept one of these methods for the settlement of the dispute or it may establish agancies to perform such services upon request.

Mediation and conciliation are practically synonyms. They refer to a type of industrial diplomacy whereby a neutral party without using any force seeks to find some middle course for mutual agreement. A mediator, must therefore, be tactful. He must not take sides or argue the merits of the dispute. Each side must have full confidence in him so that he may know the utmost concessions that the respective parties are willing to make. The purpose of conciliation is to seek a common ground between the conflicting claims of the employers and wage-earners. The task is a difficult one as it involves both the economic and social policies. A conciliator's task is quite different from that of an arbitrator or adjudicator. His aim is to bridge the gulf between the contending parties. If that is not possible, he must attempt to reduce the differences as far as possible. He may have to help the weaker contending party in a fair and judicious manner. Not being a judge, he need not give a decision which may possibly result in widening the gulf between the parties and increasing dissatisfaction and discontent. His function is to tender advice to the parties and to try to bring them close to a settlement. His

advice must be such that its rejection will make the disgruntled party repent subsequently for not having accepted it.

The advantage in conciliation is that both parties *know* what they are going to agree to. The suggestions and recommendations made by the Conciliation Officer or the Chairman of the Board of Conciliation have to be made after obtaining full and complete information from both parties. He can take them into confidence and create an atmosphere of peace and goodwill. The implications of his suggestions are carefully considered by the parties. They can make counter-suggestions or modifications and thereby remove inherent anomalies. Good and harmonious relations are thus established between the two parties. Conciliation is the most important method for the prevention and settlement of industrial disputes. Conciliators are often described as a 'Flying Ambulance Squad.' They appear whenever and wherever a collision or conflict which threatens to disturb the harmonious productivity occurs betweeen the interests of workers and employers. The conciliator stands at the centre of the new creative effort in the field of labour problems. The conciliation machinery can start working as soon as a dispute is apprehended or threatened as well as after a strike or a lock-out has been declared. It is the function of the conciliator to end the deadlock as early as possible so that the normal and peaceful working of the establishment might be resumed. Conciliation and Mediation are similar in that neither is compulsory or judicial. The mediator has been described as a confidential adviser and an industrial diplomat. His chief function is to help the two sides to come to an agreement of their own accord rather than to render an award or decision of his own making. Conciliation in the ordinary sense of the term, as used in industrial negotiation, is the coming together of the parties concerned with a view to arriving at an amicable settlement of their disputes. This term is often used for the method which would be more properly described as mediation. Mediation is the exercise of good offices by a third party in order to avert an impending rupture between the disputants or if the rupture has already taken place to bring them together as soon as possible without resorting to arbitration. He may, however, sometimes make even public recommendations as to the best course to be followed, thereby, facilitating what may be called arbitration by public opinion.

Industrial arbitration, on the other hand, is more judicial than diplomatic.* Arbitration involves the existence of a person, Board or Court for the purpose of making investigation and submitting a decision. Arbitration may be either compulsory or voluntary. This also applies to the acceptance of an award. Thus, four combinations are possible, viz. (a)

voluntary arbitration with voluntary acceptance of the award which is little more than mediation. (b) voluntary arbitration with compulsory acceptance of the award (c) compulsory arbitration with voluntary-acceptance of the award which is, in effect, compulsory investigation and (d) compulsory arbitration with compulsory acceptance of the award which is commonly known as compulsory arbitration. Whereas a mediator should never render a decision, an arbitrator's function is to make an award. During the process of an arbitration he must generally refrain from engaging in a strike or lock out.

MACHINERY FOR INDUSTRIAL PEACE IN INDIA :—

The first piece of central legislation was the Trade Disputes Act of 1929 which provided for the setting up of *ad hoc* enquiry committees to deal with matters referred to them. Similarly, it provided for the establishment of a Board of Conciliation primarily with a view to enlighten the public regarding the merit of trade disputes. It also provided details regarding the manner in which strikes in certain public utility services may be declared. But what constituted public utility services were left for the Government to decide. The Act also provided for penalizing strikes without notice and those that were not specifically in furtherance of a trade dispute. The Act proved a failure and hence, the Congress Ministry in Bombay enacted the Bombay Industrial Disputes Act (1938). It lays down that certain industrial procedures should be crystallized into what are termed as standing orders. Further, the Government took power to refer the dispute to a Board of Conciliators provided both the parties agreed to it. The Act (1938) also provided for arbitration and establishment of an industrial Court. Though arbitration was voluntary but the Government, by an amendment, had the power to refer any dispute to arbitration if a serious breach of the peace is expected or if it is likely to cause prolonged hardship or affect the scope of employment. It also recognized trade unions under three heads (1) Representative (ii) Qualified and (iii) Registered. The Act worked generally in a satisfactory manner. There were certain defects which were remedied by the passing of the Bombay Industrial Relations Act in 1946. It has introduced the following changes.

(i) Compulsory conciliation proceedings in cases of disputes not referred to arbitration remains substantially the same excepting that the conciliation proceedings must now be completed within three months instead of four months. The Act (1946) empowers the Government to refer any industrial dispute to arbitration of the industrial Court, if on the report of the labour officer or otherwise, the Government is satisfied that the continuance of the dispute may lead to the serious breach of the peace, prolonged hardship to a large

section of community, serious affliction to the industry or curtailment of the scope for employment, etc. The Act provides for the establishment of Labour Courts having ordinary and special jurisdiction in local areas for which they are constituted. The Court has powers to decide industrial disputes referred to it for arbitration and to declare the legality or otherwise of a strike, lock-out or a change. The Act also makes provision for appointing joint committees and courts of enquiry.

The principles of compulsory arbitration and prohibition of strikes provided for in the Act have also aroused strong criticisms. Conditions in India are entirely different from those prevailing elsewhere particularly in England, where compulsory arbitration was never considered a proper expedient for promoting industrial peace. In that country, collective bargaining and voluntary arbitration promote the settlement of trade disputes because of the strong organization of workers and employers. In India, weakness of the trade union movement is evident from the high percentage of unsuccessful strikes. The interests of the workers are ignored by the outside leadership for the promotion of party aims to which a majority of strikes can be ascribed. Unless and until the Indian worker is sufficiently educated and realises his interests, the weapon of strike, if resorted to, will inflict hardship and misery not only on him but on the entire community particularly, in the present production crisis. Under these circumstances, the weapon of strike should be used by the workers for compelling a frank investigation of their grievances and securing an impartial judgement on them only.

Thus, to make out the case for compulsory arbitration, it may be said that in the present economic crisis, no sensible Government can remain a passive spectator. The national emergency demands that the Government should be fully armed with powers to prevent industrial disputes. However, it must be understood that arbitration must not supplement conciliation Normally, the Act provides free scope for the working of voluntary forces in harmonizing industrial relations. The provision of compulsory arbitration is necessary to ensure that the genuine grievances of the aggrieved party are redressed and further that the economic life of the community is not endangered by the activities of an adamant employer or an intransient trade union.

THE CONCLUSION :—

Briefly, we envisage the following agencies for securing industrial peace and amicable relations between labour and capital :—

(1) Works or Joint Committees at the plant level to deal with complaints and grievances arising in the course of day-to-day work within a single undertaking.

(2) The Labour Commissioners and the Labour Officers will try to settle disputes. Standing orders will be prepared under their supervision, no change in them will be admissible without previous agreement between the parties.

(3) Labour Unions will operate in their own legitimate sphere of work and will not be captured or dominated by any of the agencies described above.

(4) The Wage Boards for each industry along with the Provincial Wage Board will supervise the implementation of the minimum wage legislation and the schemes of standardization of jobs and wages. They will adjust wage rates in the light of living index.

(5) Compulsory reference of the dispute to the Conciliator or Board of Concilation be made. Strikes without 14 days notice or during the period of reference be declared illegal.

(6) Periodical conferences of the parties during the continuance of a strike or lock-out for the purpose of meditation are essential.

(7) More Industrial Tribunals ought to be set up and the award of the Tribunal be made binding on the parties, i. e. compulsory arbitration to be tried, if necessary.

(8) The Industrial Court will hear appeals against the orders and decisions of the Labour Courts and Labour Commissioner etc. It will be of the status of a High Court and its decisions and orders shall be final and binding on the parties.

The Industrial Tribunals and the Industrial Courts—the main organs of the machinery for promoting industrial peace in India have in the recent past, become the object of bitter criticism This criticism is based on conflicting awards in similar industrial disputes in the various provinces of the Union. It is argued that no unifom principles have been followed by the adjudicators in their awards pertaining to similar demands in trade disputes. They are so conflicting on the same point that it is difficult to discern any uniform, legal principles emerging from them.

Suggestions for further reading :—

1. The Spirit of Industrial Relations: H. S. Kirkaldy.
2. Industry and Society: W. F. While.
3. What Employers can do to better Industrial Relations: J. Doak.
4. The Encyclopaedia of Social Sciences: Articles on industrial peace, arbitration etc.
5. The Trade Disputes Act, 1929.
6. Bombay Industrial Relations Act, 1946.
7. Government Measures Affecting Investment in India: D. K. Malhotra.
8. The Labour Gazette.

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OUR FOOD PROBLEM

Synopsis :—

1. Introductory—the problem still remains unsolved in India, there are the qualitative and quantitative aspects of the problem, the second is more serious ; the problem suddenly sprang up as a result of the war, in the past food scarcities were local and were characterized by lack of purchasing power and transport difficulties, the present position is different. India was a food exporting country before the Great Depression but gradually she became an importer.

2. Causes Responsible for Food Scarcity—they are the expansion of income and reduction of rent burden for the cultivator whose levels of food consumption have gone up, the disparity between population increase and food production, the presence of non-surplus producing farmers, the exports during the war, the cessation of imports on the entry of Japan into the war ; in the post-war period partition, transport bottleneck, scarcity psychology, wrong government policy and refugee problems have been important causes.

3. Governmenal Measures to Solve the Problem—in 1942, price control and rationing were adopted, wide powers were assumed under the Defence of India Regulations, the national government appointed the Food Grains Policy Committee, explored avenues for food imports, gave food subsidies and took anti-hoarding measures, the procurement programmes were launched and a monopoly of food purchases was established, the measurers were both short and long-term, real efforts began with the creation of the Food Department.

4. The Grow More Food Campaign—it can be studied in two stages—from 1943 to 1947 and the Five-Year Food Plan 1947-52, the campaign had a four-fold object-to increase the area under cultivation, to increase irrigation, to extend use of manures and to supply improved seeds, a lot of work was done but the success was very little, the campaign failed because of proper irrigation facilities, pressure on land and other difficulties.

5. The Food Grains Policy Committee—it was appointed in 1947, it made investigations and recom-

mended establishment of multi-purpose cooperative societies, a Central Board of Agricultural Planning and an autonomous Central Land Reclamation Organisation, the Committee recommended a Five Year Food Plan which was chalked out and put into practice, reclamation work has gone ahead and much progress has been made in U. P.

6. The Conclusion—failure of monsoons, disturbed internal conditions and natural calamities have stood in the country's way, there is lack of reliable statistics and finances, the uncertain world situation calls for greater efforts, our import programmes have now succeeded better, the First Five Year Plan has been announced.

Introductory :—

One of the most important problems still remaining unsolved is the food problem in India. The problem has two aspects. In the first place, it is very often argued and, rightly so, that qualitatively the diet of the average Indian is highly inadequate. Studies made by nutrition experts suggest that a well balanced nutrition diet for an adult person in India should have an energy value of 2600 calories. As things however, are probably a threefold qualitative increase in food will be required to reach this standard. Secondly, the food problem also has a quantitative aspect. Not only we fail to obtain the right kind of food, we do not in fact get enough food to eat. It is this second aspect of our food problem which has caused us so much anxiety. Qualitative improvements may wait for some time but something has to be done immediately to save the population from starvation and hunger. Needless to say that a large many attempts in the direction have been made yet so far no satisfactory results have been achieved. The National Government had declared that the aim of self-sufficiency in food will be realised by the end of 1951. Actual rate of progress, however shows that this was probably merely a pious hope.

EMERGENCE OF THE PROBLEM :—

The food problem at the present time suddenly sprang up as a result of the war. There is, of course, no denying the fact that famines characterised by mass starvation of the people have been common occurrences in the Indian history. In general, however, in the past it was not food that was scarce during the days of famines and scarcity; it was the purchasing power. Then too, such scarcities were local in character and lack of adequate transport facilities was mainly responsible for them. The present food scarcity in the

country is, on the other hand, nation-wide and, what is even more alarming, it is accompanied by an increased purchasing power in the hands of the population. The complexion of the food problem to-day naturally differs from past scarcities.

India had been a food exporting country prior to the Great Depression of 1929—31. During this period our exports were reduced drastically because of the crash of the agricultural prices. The Indian cultivator was very hard hit and he was never able to revert to the pre-Depression levels of food production. After the Depression we again resumed the export of food grains but this time such exports were counter-balanced by much greater imports of food-grains especially rice. In 1939—40, while India exported 262,000 tons of rice she imported 1 887,000 tons in the same year. Indeed, after the separation of Burma our export of rice has been negligible. In the case of wheat the story is not very much different. In 1935—36 our exports amounted to only 9,600 tons as compared with 20,200 tons in 1931-32. In 1939—40 such exports shrank further to only 7,800 tons. After the Bengal Famine of 1943 export of rice was completely banned. We have thus passed into a food importing country. Imports of wheat of late have considerably increased while exports are unthinkable.

Causes Responsible for Food Scarcity :—

Various are the causes which have led to the deterioration of the food situation in India. War, with the consequent expansion of incomes, has been a very important cause for it. People are very often misled by the fact that we have in the past been a food exporting country. The fact is that we were probably never self-sufficient in the matter of food supply especially after World War I. We had been exporting food not because of any food surplus inside the country but because of the reason that the population had no adequate purchasing power to buy the requisite quantity of food. Under feeding and slow starvation are phenomena of which the existence in India is not open to question. The cultivator could hardly meet the demand on account of rent and such other charges even after parting with 60% to 70% of his total produce. Enough was not naturally left for him to go round for the whole year. Underfeeding and starvation were his constant companions. The war to the Indian cultivator came as a great relief. The burden of rent in terms of produce considerably decreased and many of the illegal exactions vanished due to a more enlightened policy of the government from 1937 onwards. The cultivator was, therefore, able to meet the demand for rent etc. with 20% or 25% of his produce. More was left for him to eat. A half starved cultivator naturally thought of easing starvation first. What-

ever might have been the effect of the war on rural indebtedness and rural prosperity, this has got to be admitted that the levels of consumption of the cultivating class have gone up. This increased consumption of food grains in the absence of a proportionate increase in the quantity produced naturally left less food for the non-agricultural classes. A scarcity of food, therefore, became visible.

Another important cause for food scarcity in the country has been the disparity in the rates of increase of population and food production. Dr. R K. Mukerji has estimated a food deficiency for 12% of the population in a year of normal harvests. Mr. P K. Wattal in 1938 showed that during the period 1913—14 to 1935—36 while population increased at a rate of nearly 1% per annum, crop production showed an average rate of increase of 0. 65% per annum. Prof. Gyan Chand holds that while the cultivated area has increased by 11%, population has increased by about 21% between 1900 and 1934. The position has been worse since the beginning of the war of 1939, While the population continued to increase by nearly 5 to 10 million per annum, production of food-grains showed a decline in many important directions. Thus, while every year we get more mouths to be fed we do not produce enough to feed them.

Dr. Trone has noticed one curious feature of agricultural production in India. His estimates are that about 90% of the Indian cultivators produce food just enough for the upkeep of the agricultural population alone. Only the remaining 10% produce a surplus over their needs to feed the non-agricultural population. Little wonder, therefore, if a slight prosperity of the agricultural population makes the food scarcity in the country felt.

Coupled with all this was the export policy of the Government of India during the War. Rice was being exported to Ceylon and the Middle East and Far East theatres of War. No reliable figures regarding the export and destruction of wheat and rice on military account are available. But they combined with the increased consumption inside the country which was due also partly to the presence of foreign troops led to the scarcity first of wheat and rice and, later on, by way of reaction, also of other food grains. Indeed the serious nature of our food situation appeared in its ugliest form in the shape of the Bengal Famine in 1943 resulting in the death of millions of people.

At the same time with the entry of Japan into the War imports of food grains stopped more or less completely. Western countries, apart from the transport difficulties needed food for their own troops and the people while the countries of the East like Burma, Thailand, Java and Indo-China on whose export India used to depend were occupied

by the enemy. Thus, while, on the one hand, the demand for food increased the supply position, on the other hand, deteriorated.

THE POST-WAR POSITION :—

Partition of the country came as the last straw to break the back of the camel. The food surplus areas of West Punjab and Sind went over to the share of Pakistan while the food deficit areas of Madras, Orissa etc. came to the Indian Union. The division of population was not in conformity with the division of food production or cultivated area. On the whole, Pakistan obtained food producing areas in a greater proportion to her population than India.

In addition, we must take into account the effect of the transport bottleneck and the food grain control policy of the Government of India. The movement of food grains was seriously handicapped with the result that local scarcities were created. Such scarcities were, of course temporary but they exerted a very unhealthy influence upon the population. A scarcity psychology was generated and hoarding became a popular means of tiding over the uncertainties and irregularities of food supply. The administration of controls was corrupt and inefficient and there was a lack of clear thinking on the probem. Hoarding and black-marketing thrived and rationing created more problems than it actually solved. The decision to decontrol in 1948 came as the greatest shock and the situation became panicky. The recommendations of the Food Grains Policy Committee could not be given effect to. The government was handicapped by the lack of adequate reliable statistics regarding the production and consumption of foodgrains. It really became difficult to ascertain whether a particular area was a surplus area or a deficit area in the matter of food. The Food Procurement Campaign proved unpopular. The Government indeed sometimes faced serious scarcities in the areas where they least expected them.

Lastly, the heavy influx of refugees leading to a greater demand for food coupled with the unsettled conditions in East Punjab, West Bengal and certain areas of U. P. and Central India further complicated the problem. The constant occurrence of floods and draughts which have been a regular phenomena in the country has further handicapped the production of food. The position at the present time is that internal production is not enough to feed the population. Huge food import programmes have been underway. 26 million tons of foodgrains were imported in 1948—49 alone.

GOVERNMENTAL MEASURES TO SOLVE THE PROBLEM :—

A large number of measures were taken by the Government of India and the various Provincial and State Govern-

ments to meet the situation. As early as in 1942, price control was imposed and finally rationing for the urban population in the bigger towns was introduced. After the Bengal tragedy, the exports of rice and other food grains was disallowed and a vigorous grow-more-food campaign was launched. It was thought desirable to conserve the food resources of the country to check starvation. Wide powers were assumed by the Government under the Defence of India Regulations to check hoarding and black marketing in foodgrains A large many committees to impose price control and to make it a success were appointed. With the National Government in the centre, the Foodgrains Policy Advisory Committee was appointed to suggest definite practical measures. With the end of the war, avenues for the imports of foodgrains were explored. Huge import programmes were launched. Wheat was imported from Canada, Australia, U. S. A. and the U. S. S. R. Attempts were made to import rice. Some quantities did, of course, come into the country but because of the unsettled conditions in rice exporting countries of the East like Burma, Indonesia, Thailand and Indo-China, the programme could not be very successful. Inside the country, the grow more food campaign was intensified and the government began to take direct action in the production of food grains. Food subsidies were provided by the Central and State Governments to check the rise in the prices of food stuffs. Anti-hoarding and anti-wastage laws were tightened up and the administrations of rationing and price control were extended and reorganised. Most of the State Governments launched procurement programmes to obtain food directly from the cultivators. Free trading in food grains was suspended and the Governments, through their authorised agents, took up the purchase and distribution of food grains.

The food policy in India has two distinct aspects. In the first place, certain short term measures have been taken to remove the immediate shortage of food supply. Secondly, definite long term plans have been formulated and put into practice. The goal of such plans has been to achieve self-sufficiency in food. The end of 1952 has been fixed as the target date for this purpose. The government has declared over and over again, that there will be no need to import food grains after that date. The internal production will, by then, be adequate to meet the food commitments of the government. This does not, obviously, mean that food scarcity will completely vanish by then. What it implies is simply this that the food production will, by then, be increased at least to the extent of present imports, eliminating, thereby, the necessity for imports, whereas the present level of food consumption will remain unchanged.

The government's efforts to solve the food problem really

began with the creation of the Food Department under the Central Government in December 1942. The Department was to deal with the control of food prices, supply and distribution of foodstuffs and the coordination of civil and military purchases. Transport of grains from surplus areas to deficit areas was also arranged by the Department The Food Grains Policy Committee appointed in July 1943 recommended stopage of exports, resumption of imports to create a Central Food Grain Reserve, rationing in urban centres and anti-hoarding measures. An important recommendation of the Committee was the launching of the Grow More Food Campaign. The recommendations were accepted by the goverhment.

THE GROW MORE FOOD CAMPAIGN :—

The Government's food policy can better be studied in two stages viz. the Grow More Food Campaign from 1943 to 1947 and the Five Year Food Plan 1947-52. The Grow More Food Campaign had a four-fold programme.

(i) To increase the area under cultivation of food crops by bringing more land under the plough, by diverting land under non-food crops to food production and by double cropping. The government advanced interest-free loans for the purpose. In addition, rent free leases, reduction in revenue supply of water free or at reduced rates and the supply of cheap manures and seeds were also arranged.

(ii) To increase the supply of water for irrigation by improving existing canals and wells and by boring new wells.

(iii) To extend the use of manures ; and

(iv) To increase the supply of improved seeds.

Side by side preservation of the country's cattle-wealth and the import of agricultural implements and tractors was also emphasized. The various provincial governments were asked to implement these recommendations. The Central Government granted loans and subsidies to the Provinces for the purpose. The grants were made generally on 50 : 50 basis. The Provincial and State Governments spent an equal amount out of their own resources. A total subsidy of Rs. 9 crores was paid to the Provincial and State Governments. About 50 lac tons of oil cake, 4.2 lac tons of sulphate of ammonia, 20 8 lac tons of compost and about 9000 tons of seed manures were distributed during the period. Nearly 64,000 surface wells and 500 tube wells were sunk, 3,000 tanks and 22000 other irrigation projects were completed. About 3 lakh tons of seeds were distributed.

The campaign, however, could not be very successful. Despite the tall talk the results were insignificant. The area under cultivation increased by nearly 10 millon acres and the

yield by about $2\frac{1}{2}$ million tons. But this was produced at a very high cost and caused a considerable reduction in the production of cotton and jute without a corresponding increase in the production of food grains.

The Campaign failed because irrigation facilities could not be appreciably increased. The failure of monsoon in Madras in 1945-46 nullified all the efforts made in that province in the direction. In 1946-47 the wheat rust practically wiped out the entire wheat crop in Central India.

The pressure on land makes it almost impossible to prepare green manure. Oil cakes are used as cattle food rather than as manure while cow dung is burnt as fuel. Difficulties regarding seeds, implements and transport are too many and above all the campaign only took up the short period aspect of the problem whereas in increasing food production the long and short period schemes ought to go harmoniously together.

THE FOOD GRAINS POLICY COMMITTEE:—

The failure of this campaign led to the appointment of another Food Grains Policy Committee in September, 1947. The Committee recommended a new production drive and a radical revision of approach. The findings of the Committee were (*i*) that the total average production of cereals is short in relation to requirements of the existing population, (*ii*) that the annual cereals production is subject to wide fluctuations and (*iii*) that there are certain chronic deficit areas.

The Committee recommended the establishment of multi-purpose societies to solve the problem. It also pointed out that the reclamation of waste lands should be the responsibility of the Central Government. It recommended the establishment of a Central Board of Agricultural Planning and a Board of Agriculture in each Province and State. The Central Board will examine and coordinate the Provincial and State plans, determine the priorities in the allocation of machinery, manure and other supplies and review the progress from year to year. The Provincial Boards will recommend the lands suitable and available for reclamation, assist the Central Board in reclamation work, advise in the cultivation of reclaimed land and report about the yearly progress. It has been recommended to establish an autonomous Central Land Reclamation Organisation with a capital of Rs. 50 crores to be subscribed by the Central Government. The actual cost of reclamation will be recovered from the State where land is situated in 20 annual instalments. Such reclaimed land will be divisible into units of not less than 200 acres, the minimum economic unit for mechanised agriculture.

The Committee has recommended a Five Year Food Production Plan in India and the increasing of food produc-

tion annually by 10 million tons within the shortest possible time. A central reserve of one million ton of wheat and rice is to be kept for the duration of the plan. Foodgrain imports will remain the monopoly of the Government alone.

A comprehensive 5 year plan of food production in India has been chalked out in accordance with the recommendations of the Committee The scheme aims at producing 30 lac tons of additional foodgrains at the end of five years. Each State has been assigned its quota. The plan proposes to cultivate 6 million acres of reclaimed land designed to yield 20 lac tons of extra food. The main emphasis will be on more irrigation and anti-erosion facilities, manures, artificial fertilizers, better implements and mechanical equipment and intensive cultivation of such lands as have perennial water supply. Special encouragement will be given to non-cereal food crops. The agriculturists' interest will be aroused though farmer's unions. The scheme is expected to cost Rs. 282 crores.

Reclamation work has been started in right earnest. By the end of 1948—49 nearly 60,000 acres were reclaimed in U. P. The project yielded 3,00,000 tons of foodgrains, U. P. actually proposes to reclaim 8,00,000 acres and Madhya Pradesh 10,000 acres. A vast programme for constructing tube wells, 1915 in U. P., 1450 in Punjab and 1200 in Bihar has been envisaged in three years from 1949—50 to 1951—52. In 1947—48, 7 lakh tons of extra food grains were produced as against the target of 9 lakhs. In 1948—49 11 lac tons of extra food grains were produced.

THE CONCLUSION :—

Failures of monsoon, disturbed political and economic conditions, the floods and earthquakes are some of the serious handicaps in the way of food production. In addition, there is the lack of adequate foreign exchange resources for the purchase of mechanical equipment. The World Bank has been, of course, helpful to some extent in the direction. The government is also hampered by the lack of reliable statistics of food production and food consumption and the lack of funds to finance its various schemes. As our former Food Minister pointed out the government in U. S. A. is spending Rs. 78 per head of popoulation on agricultural improvement we are spending just one anna. It will only be through a strong determination and constant endeavour that positive results will be achieved. The uncertain political conditions make it all the more necessary that we adopt a realistic approach towards the food problem. Of late, the Govt. of India has been slightly more fortunate in respect of food imports. A loan of 2m. tons of wheat has been made by the U. S. A., Rice and wheat have come from China and Russia. Burma has again become a good exporter of rice for

us. But still the situation remains more or less unchanged. The Five Year Plan estimates that even after five years we shall not be able to improve the levels of food consumption. Of course, how far the plan will succeed is a different matter. A government given to enquiries, speeches and schemes alone cannot be expected to solve a practical problem.

Suggestions for further reading :—

1. Food Planning for 400 million : R. K. Mukerji.
2. Food Problem : Gyan Chand.
3. The Woodhead Committee Report.
4. The Working of Price Control in U. P. : P. L. Sharma.
5. The Food Grains Policy Committee Report.
6. The Economic Consequences of Partiton : C. N. Vakil.
7. The Five Year Food Plan.
8. The First Five Year Plan.

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COOPERATIVE FARMING IN INDIA

Synopsis :—

1. Introductory—there is great poverty in India, the chief cause for the low income of the farmer is the low size and scattered nature of agricultural holdings which make the use of improved methods impossible, these holdings can be consolidated through collective or cooperative farming, the first is not desirable in India, the second is the best alternative.

2 The Case for Cooperative Farming—it is based upon the economic security it confers on the farmer, without cooperative effort commercialization of agriculture is not possible, cooperation also has social value, Indian genius and tradition is suited to cooperation, mutual aid principle is known and practised in India since long, the small farmer can survive only through an associative endeavour, the form of such an endeavour will differ according to the different factors in operation.

3. Meaning and Types of Cooperative Farming—a standard definition is not possible, the characteristics are principles of mutual aid, democratic management, and distribution according to the use of association ; Cooperative farming societies are of four types, Cooperative better farming societies where cooperation is only for specific purposes, joint farming societies where cooperation is much closer, tenant farming societies where the society performs mainly supplementary functions and collective farming societies which is a combination of second and third, better farming societies are not technically experiments in cooperative farming.

4. Attempts at Cooperative Farming in India—the Policy Committee on Agriculture, Forestry and Fisheries (1945) recommended experiments by Provincial Governments. The Cooperative Planning Committee recommended different ventures in different localities, the cooperative Registrars Conferences stressed a number of points ; the U.P. Government made bold experiments in Ganga Khadir and Tarai, joint farming did not succeed.

5. Handicaps to Cooperative Farming—the Congress Agrarian Reforms Committee notes, caste and

community differences, unequal status, lack of discipline etc. as some of the obstacles, progress will greatly depend upon stability of agricultural prices, wise leadership and state encouragement. in the early stages joint farming seems to be inadvisible.

6. The Conclusion—cooperation will bring order in agriculture, it will increase national production and will rationalize agriculture, it is necessary to coordinate States, panchayats and societies in their efforts, there is an urgent need for trained personnel, the potentialities are really great.

Introductory :—

The standard of life in India, as is well known is unspeakably low and statistical evidence to establish what is so obvious is unnecessary. This appalling poverty of the teeming millions of our land is largely due to the fact that the productivity per acre and the per capita income of the farmer are the lowest in India. It is also equally well-known that our lands are quite fertile and the agriculturists quite shrewd and intelligent and capital not lacking. What then stands in the way of agricultural progress ? One of the main reasons for the backwardness of Indian agriculture and the consequent low economic condition of the rural masses is the small size of individual agricultural holdings and their scattered distribution. The real cause of low productivity lies in the extreme smallness of holdings which is mainly responsible for the miserable plight of our farmers. The uneconomic size of holding is an unmitigated evil for which no advantage can be claimed. It destroys enterprise, results in enormous wastage of labour, leads to a very large loss of land owing to boundaries, makes it impossible to cultivate holdings as intensively as would otherwise be possible and prevents the possiblity of introducing the outsiders with more money as tenant farmers or as purchasers of a good agricultural property. So long as these sub-divisions are not reduced and the numerous fragments not consolidated, improvement of agriculture is not only impossible but rather unthinkable.

The question that has to be faced, therefore, is how best to consolidate these holdings so as to promote the efficiency of agriculture. The apparently easiest way out of the woods would be to collectivise agriculture ; but a careful study of the working of the Collective Farming in Russia makes it clear that it is not, in the present context, suitable to our land. There are many difficulties in addition to those which have been met within Russia. Some of these are intense

pride in land-ownerships and all that this involves, the absence of industrialization of the country to anything like the extent as has been attempted in Russia and finally the existence of a large body of middlemen whether existing as landlords, private merchants or money-lenders etc. all of whom had to be liquidated in Russia before the collective farm system could be a success. Unless these difficulties can be met and got rid of, no success of any collective form system in India is likely to occur. Whether they can be got out of the way without revolution, is difficult to say.

If collectivisation of agriculture is not practicable in the near future then is there no other alternative? I think there is and that is cooperative farming.

THE CASE FOR COOPERATIVE FARMING :—

The case for cooperative-farming does not rest only on these drawbacks of the existing peasant economy comprising uneconomic holdings. It has a more positive basis in the definite advantages which accrue from such a type of land-organization. To the farmers themselves it gives better economic security. When lands of different fertility and location go into the common pool, the risks of failure and consequent loss are more widely distributed, and no individual farmer is totally ruined. Moreover, it will enable the farm equipment to be more fully employed as it can be put to diverse uses according to the different requirements of each farm plot.

Secondly, when agriculture has passed from the self-sufficing to the commercial stage, the farmer has constantly to adjust his resources and the system of production to the needs of the market. Without an association to study market trends as well as to advise him on the best way to deploy his productive resources, he is apt to remain the weakest unit in the economy, at the mercy of every other organized section. Further, in the national planning programmes, agriculture will not be able to make its full contribution unless the farmers organize production units which would fit into the development schemes undertaken. The State will find in these farming cooperatives powerful auxiliaries for enforcing its production programmes, for introducing improved methods and maintaining the desired standards of cultivation.

Thirdly, the value of an agricultural cooperative comprising a whole village or group of villages as a social organization bringing erstwhile individualistic elements into a common fraternity cannot be discounted. The Owenite ideal of a village commune, which has found expression in the village bank of Raiffeisen and have been revived in the famous expression 'better business, better farming and better living' has a special appeal for India where the ideal

of the village as the unit of cultural and the economic life of the community is still very strong. Progressive people in other parts of the world are gradually feeling dissatisfied with the extent to which compartmentalism and specialization have crept into the cooperative field, and have now begun to look forward to a wider orbit of integrated action in different fields of endeavour. It is not enough to organize farmers in a district for one purpose only—in a credit society, a dairy society, a fruit society, a bacon society or a cooperative store. All these may be and must be the beginnings, but, if they do not develop and absorb all rural business into their organization, they will have little effect on character. The specialized society only develops economic efficiency. The evolution of humanity beyond its present level depends absolutely on its power to unite and create true social organisms.

In short, the small holder's remedy here, as elsewhere, lies in developing the cooperative form of activity to support individual effort. Indian genius and Indian tradition are peculiarly suited to such forms of social and economic activity. The joint family tradition is still strong and the village as a unit of political administration and of the social and economic life of the community is still the basic organization of every form of corporate activity. Cooperative effort in different lines of farming work had long been in existence before the cooperative societies of the standard type came to be organized. Such forms of mutual aid and neighbourly collaboration have particularly been noticeable for finishing sowing and harvesting during the short time available before monsoon interrupt work. Sometimes, for growing an expensive crop like sugarcane, closer degree of joint effort is seen, the farmers agreeing to pool their resources of land, labour and equipment for limited periods.

The small-holder's chance of survival, therefore, lies in some form of associated endeavour to strengthen his production and selling capacity. What particular form this should take would depend upon a number of factors such as (*i*) the prevailing system of land holding in the area (*ii*) kind of crops grown (*iii*) whether diversified or single cropping is pursued (*iv*) whether the farming class of the area is homogenous in social and economic status (*v*) the size of the existing farming units (*vi*) the degree of technical skill available (*vii*) the incentives given by the local government and above all (*viii*) the degree of cooperative spirit manifest among the farmers. These factors would determine whether a loose organization for specific purposes would suffice or whether a much closer union, affecting the whole range of production and marketing is necessary.

MEANING AND TYPES OF COOPERATIVE FARMING :—

Owing to factors mentioned above, it is not possible to give a standard definition of cooperative farming. Whatever form is attempted, it must embody some or all of the distinctive traits of a cooperative organization (a) It must be one for mutual assistance. (b) The management must be democratic and (c) It must distribute income in proportion to the use which each member makes of the association. If the society is one for purchase and sale, the value of the goods the member purchases and the value of the goods he sells through the society should determine his income ; if it is one for joint cultivation, the value of the land he brings into the common enterprise and the share of the labour he puts in should form the basis on which his proportion of the proceeds is determined. Subject to these conditions, the type of organization he evolves will vary with the needs and the circumstances of the situation

Generally, cooperative farming societies are classified into four categories: *(1) Cooperative Better Farming Society;* It consists like any other cooperative society of 10 or more members who join together for the promotion of common economic interests through the adoption of improved methods of farming. Except for certain specific purposes, like purchase of agricultural requisites in common, or the pooling, grading, processing or selling of the produce or acts connected with cultivation like arrangements for sowing, draining, keeping of watch & ward or common harvesting, the members own and independently work their lands, although they may agree to a common plan of cultivation drawn up by the society. The society is managed by the managing committee comprising usually of five members elected by the general body. The funds of the society consist of (i) owned capital composed of shares, entrance fees, reserve fund, subscriptions and contributions from members and (ii) borrowed funds composed of loans and deposits. After meeting all expenses the balance is credited to the Reserve Fund and the rest is utilized for paying dividends or bonuses in proportion to the patronage each member gives to the society.

(2) Joint Farming Society. It represents a much closer association of members in the common work of the farm and in the business aspects of farming. The objects of the society are :—

(i) to purchase or take on lease lands for cultivation.

(ii) to enourage the members to pool the land and work it jointly in compact economic blocks.

(iii) to prevent their physical sub-division and fragmentaion.

(iv) to arrange for the joint purchase of requirements and joint sale of the produce.

(v) to arrange the necessary finance for carrying on its operation.

(vi) to undertake land improvement and other activities (like starting of subsidiary industries) calculated to improve the economic lot of the members.

Ownership remains individual, although the property is worked in common and is generally recognized by the payment of an ownership dividend from out of the proceeds, or by some method of evaluation entitling to a claim of profits. The members work on the lands under the directions of the managing committee which is the executive body of the society and receive wages on the agreed terms for work done. The wages may be on the basis of daily work, or evaluated in terms of work-day units calculated on the basis of the possible time required to complete a given task. The balance of the proceeds after paying for the interest on loans and deposits, charges for working expenses allocation to cover losses and depreciation and the payment of the land assessment, cesses and rent is distributed as follows:

(i) 25% to reserve fund (ii) a percentage distributed as dividend (ii) balance is paid to members in proportion to the wages earned by them.

(3) Tenant Farming Society: It is generally organized by the society taking over land either on lease-hold or free-hold and dividing it among members who work the land as tenants of the society on the basis of a fixed rent. A cropping plan is laid down by the society which is generally adhered to by the members. The actual cultivation of the land is left to each member who tills the land independently and sells through the society such part of the produce he chooses to The society performs the supplementary services of purchase and sale and the provision of credit. The proceeds after making the usual payments mentioned above, and providing for the reserve fund are divided among the members in proportion to the rent paid by each or the produce delivered or on some other agreeed principle of division.

(4) Collective Farming Society: It is a combination of tenant farming and joint farming organizations. The society takes on lease or free-hold, land which the members cultivate jointly under the direction and management of the society. The members are paid wages. The proceeds, after the usual deductions are distributed among the members in proportion to the wages earned by each member. The members have the right to withdraw. They have also complete freedom to manage their affairs without interference from the State.

The Better Farming Societies, however valuable their services to farming, may be can hardly be described as experiments in cooperative farming. At best, they can only be described as aids to better farming and do not constitute a new method of land holding and land use. Cooperative farming implies a more advanced stage wherein the processes of cultivation on several farms and the means of production are integrated for effecting economies in cost and for increasing the returns from land by a more efficient use of available resources.

ATTEMPTS AT COOPERATIVE FARMING IN INDIA :—

The Policy Committee on Agriculture, Forestry and Fisheries (1945) recommended that the States may undertake with such assistance as may be necessary from the Central Government pilot schems on different types of farm organization befitting each type of soil, climate, tenure etc. so that the comparative advantages of the different organizations may be determined and a suitable one evolved for wider application. The Cooperative Planning Committee (1946) recommended that experimental ventures on types of cooperative farming best suited to each locality should be undertaken in two selected villages in each district of a province. This was endorsed by the 14th and the 15th Conferences of the Registrars of Cooperative Societies. The Palestine Delegation's Report was forwarded by the Government of India to all State Governments in 1948 drawing their attention in particular to the following points contained in the report.

(i) possibilities of organizing cooperative farming in areas already occupied by bringing together the small portions of lands owned by farmers ;

(ii) the members working on the lands so pooled under the management and direction of the cooperative farming society and

(iii) every member sharing in the society's output in accordance with his contribution of (a) labour and capital and (b) area and quality of land to the society. It was suggested that the Provinces and States may consider the feasibility of undertaking experiments on cooperative farming covering a whole village or group of adjoining villages which would serve as demonstration units for the rest of the area.

Experiment in Uttar Pradesh.

In pursuance of these recommendations, the U. P. Govt. has introduced cooperative farming in suitable areas. The most notable experiment in this direction is the colonization of the newly reclaimed land known as Ganga Khadi comprising an area of 47000 acres. Each holding : consist of 10 acres, and 100 farms constituting 1000 ac

taken as an unit for a Cooperative Society. Sub-division and fragmentation are prevented by rules framed by the U. P. Govt. under which the holder of the land is allowed to nominate only one of his sons to inherit his property. The programme was to plough up an area of 22000 acres by June 1949. By January 1949 nearly 10000 acres out of a plan of 22000 acres had already been reclaimed. The tractor units of the Central Government completed the initial breaking up of the virgin soil within four months and in another three months the Provincial Tractor Organization double-harrowed the land for Kharif sowing. The Kharif crop yielded 40000 maunds of paddy, 72000 maunds of sugarcane besides 33000 maunds of Juar fodder. Under Rabi sowing 3730 acres were under wheat and 2700 acres under barley. For Kharif sowing, the means of production were pooled and harvesting was done jointly, when, however, Rabi ploughing and sowing commenced, every settler family worked individually on its own 10 acres and there was no cooperation in the operations of cultivation and harvesting. The reason given was that the joint farming did not work well, that there were disputes about one individual working harder and the other avoiding work. Further, distribution of the harvest caused heart-burning amongst people who were otherwise living together on most friendly terms.

Following the failure of joint farming, the settlers were organized into nine multi-purpose cooperatives. This serves to show some of the difficulties in organizing cooperative farming in this country. It is only by a process of trial and error that a method of land use can be evolved which would suit the needs of the country. Different systems will have to be worked out under different conditions of soil and climate, and social and economic environment in order to ascertain the most suitable type. On new lands the problems are simpler which account for the fact that most of the experiments in cooperative farming now being attempted are on newly reclaimed lands. But even on such lands it has been found difficult to organize complete cooperative joint farming. Farmers are unwilling to come together to work on a joint basis unless definite inducements are held out to them of eventual individual ownership and hereditary possession. In the colonization schemes of Tarai and Ganga Khadir, individual cultivation and individual ownership rights have had to be conceded. Besides this individualistic bias of the farmer, another difficulty in the newly settled areas is the disinclination of the member to work on the farm himself and consequent difficulty in apportioning profits on the basis of actual work done. These three factors—insistence on ownership rights, individual cultivation and dependence on hired labour leading to the emergence of a non-cultivating

class would tend to rapidly reduce the new land system to the old one.

HANDICAPS TO COOPERATIVE FARMING :—

The Congress Agrarian Reforms Committee in its Report (1950 points out many handicaps which might beset cooperative farming such as :—

(a) Caste and community differences (b) squables in village life (c) unequal status of men (d) inability of most men to work under strict discipline due to week health and friction (e) difficulty in getting the right type of man to manage and guide and (f) red-tape and delays in administration. The most fundamental difficulty is the lack of cooperative spirit in the village life. Other difficulties are not inseparable as they are not inherent in the village life and can be removed by progressive changes in the economic order and administrative organization.

The stability and progress of joint farming would very much depend on the stabilization of agricultural prices. Among other conditions leading to the success of cooperative joint farming are: (1) wise leadership (2) equitable distribution of products (3) capacity to put in hard labour and under go privations in the early stages and (4) maintenance of individual interest (5) and the encouragement it can receive from the Central and Provincial Governments.

In the early stages cooperative joint farming should never be carried to the extent of collectivisation whatever might be the ultimate development. As a matter of fact, the small cooperative joint farms would not make the peasant feel lost in the cooperative joint farm. Good results may be achieved if the farmers are allowed to have some homestead land where they can raise their kitchen garden vegetables and some personal requirements like tobacco, pepper etc. as in Russia after the Revolution. But a farmer, however, will not be allowed to pool a part of the holding into a cooperative oint farm and to keep the rest under individual cultivation.

THE CONCLUSION :—

It is, thus, seen that the organization of agricultural production on cooperative lines is an attempt to bring order in the largest field of human endeavour which, till now, has remained the most disorganized. Its immediate importance lies in the urgent necessity to increase national production for making the country self-sufficient in food and industrial raw materials. As a permanent measure of improvement, it affords the best means of rationalizing agriculture, and attaining a higher order of social and economic life in keeping with the principles of democracy and self-government. It is, therefore, necessary that an experiment of such great natio-

nal importance should receive top priority among schemes of national development and should be taken in hand immediately. A suitable organization consisting of representatives of the cooperative and agricultural departments, Panchayat officers and prominent agriculturists in each province would be helpful in giving the necessary drive and creating conditions of uniform progress. Older lands should receive more concentrated attention as successful experiments on existing cultivated plots would open out possibilities of carrying through a major reform in land management and use. It is necessary that such experiments should be undertaken under conditions which would, as far as possible, ensure the elimination of factors which might cause a breakdown of the venture on the technical or on the economic side. Much would depend on the management and no effort should, therefore, be spared for making available trained personnel to run and manage the undertaking on efficient lines As the potentialities are so vast and of such great moment to the country's premier industry, it is necessary that the people and the govt. should combine to make a sustained effort to make the pilot ventures a success.

Suggestions for further reading :—

1. Cooperation at Home and Abroad : Kay.
2. Cooperative Movement in India : H. L Kaji.
3. Report of the Cooperative Planning Committee.
4. Report of the Policy Committee on Agriculture, Forestry and Fisheries (1945).
5. Report of the Palestine Delegation.
6. The Congress Agrarian Reforms Committee Report.
7. Proceedings of the 14th and 15th Conferences of the Registrars of Cooperative Societies.
8. The Indian Year Book.
9. Our Economic Problems: Wadia and Merchant.

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INDIA'S FOREIGN TRADE

Synopsis :—

1. Introductory—India had distant trade relations in the remote past, a number of articles were objects of trade, during the Muslim period new routes were opened, with the rise of the British the complexion of India's trade changed and we became raw materials exporting country, the opening of the Suez Canal tremendously increased the country's trade to Europe.

2. The First World War and After—imports and exports both fell during the war to about 50%, this was due to war-time difficulties, the post-war period witnessed a boom but the full value of it could not be utilized, upto 1929, the progress continued.

3. The Great Depression and its Aftermath—in 1929 a downward trend started, there was a general crash of the prices in respect of agricultural commodities and raw materials, India suffered much, exports fell to a greater extent than imports, huge quantities of gold had to be exported, in 1933 a recovery was visible but in 1936 there was again a recession, in 1938-39 the armament race again increased demands and the trade prospered.

4. The World War II and the Post war Trends—there was a feverish activity at the outbreak of war, there was a great expansion of foreign trade, there was a fall in 1942 because of control and restrictions, the shipping difficulties, the non-availability of goods abroad and the Empire Dollar Pool reduced India's imports, in the post-war period imports especially due to food scarcity increased and the balance of trade became unfavourable.

5. The Composition of the Trade—on the import side in the post-war period food, raw materials and capital goods assumed greater importance, export of manufactures increased, the creation of Pakistan and the open General Licenses were two Important events.

6. The Direction of the Trade—the share of U. K., Commonwealth and Empire countries has continuously increased, trade relations have of late been developed with a number of other countries; the creation of Pakistan has created great difficulties depriving us of raw materials for our industries, it is impossible to have

any workable trade agreement with Pakistan, after devaluation things further deteriorated.

7. The Conclusion—an expansion of trade is greatly needed, industrialisation schemes call for greater imports of raw materials and machinery, there have been a number of trade agreements. Japan is a potential competitor in the near future.

Introductory :—

There are ample evidences of India's trade relations with distant lands in the ancient past. As early as 3000 years B C., we had flourishing trade with Egypt and Babylon. Dacca muslins were sent to China, Persia, Arabia and countries of Europe. The principal articles of export were textile goods, metalware, ivory, perfumes, dye-stuff, spices and fine works of arts which contained great value in small bulk. The imports consisted of gold, certain metals like tin, brass and lead and of wine and horses. Silk was imported from China and pearls from Ceylon. Indeed it has been found out that Indians were a sea-faring nation and they possessed fleets of merchantmen.

During the Muslim period, the pattern of trade remained more or less undisturbed. New trade routes by land to Kabul, Central Asia and Persia developed. At the same time, complexion of our imports changed. India now began to import more of luxury goods. During the Muslim period markets were extensively developed and even the ladies in England prided themselves on wearing India's find muslin cloth.

With the rise of the British power in India the East India Company in the beginning tried to encourage Indian industries in order to export their products; but as the 18th century advanced, the entry of Indian manufactures into England was either severely restricted by heavy duties or prohibited altogether. With the advancement of Industrial Revolution in England, the complexion of our foreign trade completely changed. India began to export raw materials to feed the British manufacturing industries while she began to import the same manufactured articles she was previously exporting.

The Opening of Suez Canal.

The opening of the Suez Canal and the construction of railways inside the country were an important landmark in the history of India's foreign trade. The distance to England was reduced by 5,500 miles and, therefore, the European markets opened up. At the same time, the policy of free trade allowed an unrestricted scope to the development of

any workable trade agreement with Pakistan, after devaluation things further deteriorated.

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our trade, India's foreign trade was stimulated and from Rs. 89 crores in 1864-69 it increased to Rs. 210 crores in 1899—1904 and to Rs. 376 crores in 1909—14.

THE FIRST WORLD WAR AND AFTER :—

During World War I, our exports and imports both registered a fall. Imports fell from Rs. 183 crores in 1913—14 to Rs. 63 crores in 1918—19 while the exports fell from Rs. 244 crores to Rs. 160 crores during the same period. The overall fall in our foreign trade was about 50%. This was caused by the war time restrictions on trade and difficulties of transport. The trade with enemy countries completely stopped and that with neutrals greatly decreased while the war devastated countries suffered from lack of purchasing power. Shipping accommodation became difficult and freight and insurance charges increased. It was during this period that natural protection was granted to our industries. If India had manufactured or imported machinery, her industries would have developed as they did in Japan.

There was a boom in India's foreign trade in the post-war period for some time. But the full benefits of the boom could not be derived because of the railway transport difficulties in the country and because of the high exchange value given to the Indian rupee. From 1920—21 there was a slump and it was only in 1922—23 that there was a recovery which continued until at last the Great Depression intervened in 1929—33. The following table from P. C. Jain's Industrial Problems of India illustrates the position :—

In Crores of Rupees.

Year	Imports	Exports	Balance.
1919-20	222	336	+ 114
1920-21	347	267	- 80
1921 22	282	248	- 34
1922-23	246	316	+ 70
1229-30	249	318	+ 69

The conditions which favoured this recovery were the progressive stabilization of the European currencies, the improvement in the credit position of the Central European countries and the settlement of reparation question in 1924.

THE GREAT DEPRESSION AND ITS AFTERMATH :—

A downward trend of trade started in October 1929 after the Wall Street collapse in U. S. A. India did not remain unaffected by the world events and there was a rapid shrinkage of the volume of her foreign trade. The Depression was caused by the world wide over-production of raw materials and manufactured goods, by the concentration of gold in U. S. A. and the consequent deflationary policies elsewhere and by the political unrest notably in India, China an

South American Countries. The rise of economic nationalism after the First World War which necessitated restrictions on trade in the shape of tariffs, quotas and exchange control, coupled with the widespread abondonment of gold standard, adversely affected the world trade. The agricultural prices were heavily crashed. The value of India's exports fell disastrously because of the heavy fall in their prices and because of the decline in the world demand for them. The fall in imports was caused by the reduced purchasing power of the people, the political unrest in the country and by the stimulation of home production of cotton textiles, iron, steel and sugar due to the policy of protectionism.

The fall in exports was greater than the fall in imports for the obvious reason that India's exports consisted mainly of agricultural commodities and raw materials whose prices had fallen more disastrously than the prices of manufactured goods which were her chief articles of import. Had it not been for huge exports of gold during this time, our balance of trade would have been awfully unfavourable, Thanks to this out-flow of gold, we continued to enjoy a favourable balance of trade which even in the worst year of depression 1932—33 was to the tune of Rs. 3 crores. The total export of gold between 1930 and 1938 amounted to Rs. 350 crores.

A recovery was visible in India's foreign trade in 1933—34 in the shape of improvement in exports. By 1936, the recovery was visible throughout the world and prices began to revive. The recovery was due to many causes. In the first place, the adoption of the Recovery Plan in U. S. A. led to the adoption of similar plans elsewhere. Secondly, a war hysteria developed with the result that huge armament programmes were formulated and put into action. In the case of India, the Ottawa Agreement of 1932 offered further stimulus to her trade while the Indo Japanese Agreement of 1934 considerably improved her trade with Japan. Business went on improving till 1936-37, but in 1937-38, there was again a setback caused by the Recession which lasted upto 1938-39. The decrease in the volume of India's trade was caused by the hanging clouds of war which exerted a very depressing influence on business. The fall was also due to the shrinkage of the Japanese market, Japan being too busy with her Chinese adventure. In 1938-39, the armament race coupled with huge expenditures by the various governments, again pushed the prices up.

THE WORLD WAR II AND THE POST-WAR TRENDS :—

The outbreak of war in September 1939 led to feverish increase in the demand for raw materials and manufactured articles from abroad. Despite the fact that many of the countries were declared enemy countries and the trade with them was forbidden, the volume of India's foreign trade

expanded. The following figures compiled by Dr. B. K. Madan give a correct idea although they are defective as they do not include the purchases made by the British Government and the value of goods supplied by U.S.A. under Land-Lease arrangements.

In Crores of Rupees

Year	Exports	Imports	Total
1940-41	187	157	344
1941-42	237	173	410
1942-43	187	110	287
1943-44	199	118	317
1944-45	210	204	414

The fall in 1942-43 was caused by the imposition of import and export control regulations and by the imposition of Exchange Control and the licensing of importers and exporters. In addition, after the entry of Japan into the war India lost valuable markets in the East. The difficulties in obtaining shipping accommodation became more pronounced as the war moved on, and the countries from which India was importing goods were either declared enemy countries or were so fully absorbed in war efforts that they could not afford to send goods to India except those urgently needed for war purposes. The working of the Empire Dollar Pool made it all the more difficult for her to import goods from U. S. A. while the increased submarine activity of the enemy made shipping risky and dangerous.

On the whole, during the war the shrinkage of imports was more pronounced than the fall in exports. The import position, however, remained the same after the cessation of hostilities. The domestic production, despite the high prices during the war and despite the stoppage of imports, could not expand in relation to the demand inside the country. Therefore, immediately as the shipping accommodation became available and as the danger of enemy submarine activities decreased imports began to improve. The largest increase in imports in the beginning was, however, in respect of mineral oils consumed by the army. Later on, imports of food grains and of capital goods came in increasing quantities. The balance of trade became adverse as will be clear from the figures below :—

In Crores of Rupees

Year	Exports including re-exports	Imports	Balance
1945	229	232	— 3
1946	266	292	—26
1947	320	334	—14
1948	428	451	—23
1949	...	...	—

The rapid expansion in the post war period is accounted for by the relaxation of export and import controls, increased shipping space, the increased gap between domestic consumption and domestic production and the necessity of importing huge quantities of food.

COMPOSITION OF THE TRADE :—

One of the important development in the foreign trade of the country during the World War II has been the change in its composition. The following table from the Indian Year Book will make the position clear:

	1938-39 Percentage with the total	1943-44 Percentage with the total	1944-45 Percentage with the total
Imports			
Food	15.7	6.0	9.4
Raw Materials	21.7	54.4	58.3
Manufactures	60.8	38.2	31.8
Exports			
Food	23.3	22.8	20.9
Raw Material	45.1	25.6	25.6
Manufactures	30.0	50.5	51.5

In 1946 and 1948 the imports of food was 11.4% and 18.6% respectively, imports of raw material have been nearly 26.3% and 24.3% respectively while the imports of manufactures have been 51% and 59.8% respectively. Exports of the manufactures, on the other hand, have increased considerably to 49% in 1946 and 49 2% in 1948 Thus, we observe that immediately in the post-war period, the war time tendency of the decrease in the export of raw materials continued but this had to be altered to liquidate the deficit on the balance of trade account. The export of manufactures continued at a high rate although a slight fall in the percentage became visible. The important reason accounting for the fall of the exports of raw materials and manufactures was the partition of the country by which important areas producing raw materials for the export and for the consumption of domestic industries went over to Pakistan. Upto 1948 imports of food continued to increase but as the Grow More Food Campaign gathered momentum, the Government made drastic cuts in it. In 1949 and 1950 such imports decreased. The Government of India has decided to totally stop these imports after 1952. The import of manufactured goods increased because of the Open General Licenses granted for imports and because of the import liberalisation policy as a part of anti inflationary drive.

THE DIRECTION OF THE TRADE :—

Regarding the direction of India's foreign trade, it is

seen that exports to U. K., Commonwealth countries and the Empire countries have continuously increased from 41% in 1909—14 to 65% in 1944—45. After the end of the war, the exports showed a tendency to be equally divided between Empire and non-Empire countries. The following figures speak for themselves :—

Percentage--Exports

	1909—14	1938—39	1945	1948
Br. Empire	41	54	60	50
Foreign	59	46	40	50

Percentage—Imports

	1909—14	1938—39	1945	1948
Br. Empire	70	58	37	46
Foreign	30	42	63	54

The above figures indicate that the percentage of imports from the Empire countries has shown a fall although U. K. still enjoys a major share of India's imports. Of late, India has been depending for the supply of her needs for capital goods and food on non-Empire countries. U. S. A., Belgium Czechoslovokia and Japan supply the capital goods while Burma, Pakistan, Argentina, Russia, Canada and Australia supplied food grains.

The Creation of Pakistan.

Perhaps the greatest shock as also the greatest botheration to India's foreign trade in recent years has been caused by Pakistan. Despite serious efforts by the Indian Government, proper and smooth trade relations with Pakistan could not be developed. Through partition we have been deprived of the two most important raw materials of cotton and jute whose manufactures used to play an important part in our export trade. This accounts for the increase in the import of raw materials after 1947. At the same time, imports of food had also to be increased as the food surplus areas of Sind and West Punjab went over to the share of Pakistan. There have been a number of Trade Agreements with Pakistan most of which were not faithfully observed by the sister dominion. After the no-devaluation decision on the part of Pakistan a complete stalemate of Indo Pakistan trade developed. An Inter-dominion Trade Agreement was negotiated whereby a barter exchange of goods between India and Pakistan was finalised pending the fixation of the par value of the Pakistani rupee. The Agreement came to an end on 30th of September, 1950 and there was again a stalemate. But a new agreement was reached early in 1951.

THE CONCLUSION :—

An expansion of India's foreign trade is the need of the hour. This implies both the expansion of the exports and

the imports. We are in urgent need of both capital goods and raw materials for the industrialisation of the country and for carrying out the various development plans. We also require consumers, goods to break the present spiral of run-away prices. Exports are necessary to pay for such imports and also for securing markets for our jute and cotton textile goods. In the post-war period there has been a deficit on our balance of trade account. Had it not been for the help of the International Monetary Fund, the International Bank and foreign borrowings, we could not stand on our legs. Exports to hard currency countries require special stimulus. It is an encouraging sign that in 1950 and 1951 we have intensified our export drive so that the balance of trade has become favourable while, at the same time our exports to hard currency countries have been increased. The recent trade agreements with Japan, West Germany, Afganisatan and Indonesia are sure to increase the volume of our foreign trade. There are signs of better deal with Pakistan. But the signing of the Japanese Peace Treaty which means the entry of Japan into the world market may create a situation where we may have to lose our markets in the Far and Middle East.

Suggestions for Further reading :—

1. The Indian Year Book.
2. A Review of Indias' Foreign Trade : B. N. Ganguli.
3. India and the Imperial Preference : B. K. Madan.
4. The Indian Fiscal Policy : B. P. Adarkar.
5. The Statistical Abstract.
6. Indian Builds Her War Economy : P. C. Jain.
7. Devaluation and its Aftermaths : Lalwani.
8. Eastern Economist and the Commerce.

38

NATIONALISATION OF INDUSTRIES

Synopsis :—

1. Introductory—nationalisation signifies state ownership, under democracy nationalisation leads to industries being run for the benefit of the society, the idea developed due to the influence of socialism, earlier economists recommended *laissez faire*, but this was given up as the conflict between the workers and the capitalist became sharp.

2. The Influence of Marx—Marx made a scientific study of the working of the capitalistic system, two important conclusions of him were those relating to over production and the monopolistic nature of capitalism, experience has justified Marx, the world is approaching fast towards nationalisation, the capitalist countries have introduced it in certain branches of production.

3. The Development of the Idea of Nationalisation—there have been three important factors—the bold experiments in the U. S. S. R., the development of monopolistic tendencies in capitalism and the presence of industries where private investment does not come forward, nationalisation solves the problem of over production, protects consumers against exploitation, it leads to a control of credit, State Socialism aims at nationalization, in England a number of industries have been nationalised and beginnings have been made in U. S. A., all socialistic countries are wedded to the policy.

4. Need for Nationalisation in India—it arises out of the idleness of resources, the traditional shyness of of Indian capital and as a compromise between communism and capitalism, railways, road transport, defence industries, etc. have already been nationalised, the Economic Programme Committee of Congress has made important recommendations towards nationalisation of basic industries of a monopolistic nature, the Reserve Bank has been nationalised and the nationalisation of the Imperial Bank and insurance has been accepted in principle.

5. Drawbacks of Nationalisation—they arise from the impersonal nature of the management, the money cost is often high but the social cost is always low, in

Russia even the money cost and efficiency compares favourably with private enterprise, nationalisation is in conformity with modern concepts of regionalism and decentralisation.

6. The Conclusion—there is a general trend towards nationalisation, the argument of higher cost is not very forceful. in the First Five Year Plan in India nationalisation as a general rule has not been accepted, in the public sector alone it is attempted.

Introductory :—

Nationalisation of industries signifies the state ownership of the means of production. A nationalised industry is one which is owned, worked and managed by the State. Under democracy where state means nothing more than the representative of the people working for the people as a whole, nationalisation and socialisation of industries come to mean the same thing. Under democracy state ownership of industries means a democratic control over the productive forces and units inside the country by the state for the benefit of not certain individuals or groups but for the benefit of the society or the nation.

The development of the idea of nationalisation is intimately connected with the development of socialistic ideas. After the Industrial Revolution when capitalism began to make progress the inherent weakness and the inherent contradictions of capitalism became clear. Under capitalism, every individual is theoretically guaranteed a right to take to any job or occupation he likes (provided it is not contrary to the law of the land.) Every individual is again guaranteed freedom of enterprise. As a necessary corollary the right to private property is recognised, protected and upheld. The earlier economists, notably the Physiocrats, Adam Smith and J. S. Mill believed that there was some sort of natural harmony between the interests of the different classes of people so that each individual working for his own benefit unconsciously worked for the benefit of all. Individual self-interest was in complete harmony with the social interest. Acting on this belief, they recommended a policy of *laissez faire* or non-interventionism by the State. They were convinced that every outside interference was bound to disturb the proper working of the natural order and natural harmony. State was, therefore, asked to keep its hands off from the nation's economic life. This belief, however, did not last long. The disillusionment came when it was observed that the friction between labour and capital

had been developing along with the development of capitalism.

Ricardo was convinced that natural harmony was a myth. He came to the conclusion that the interests of the different classes of people far from being in harmony were opposed to each other. At the same time, he observed that the institution of private property was working only for the benefit of a section of the population. It had violated the principle of 'survival of the fittest'. The private property owner who owned the means of production was in a position to regulate production both quantitatively and qualitatively. What was more, his interests were opposed to the interests of the hired labourers he employed for the purpose of carrying on production.

THE INFLUENCE OF MARX :—

It was left to Karl Marx, the father of modern socialism to make a detailed scientific study of the working of the capitalistic system of production. Marx came to the conclusion that when the means of production were owned and controlled by individuals, the worker did not get a full share of his contribution to production. A part of it was appropriated by the capitalistic producer. This part was designated as surplus value by Marx. Karl Marx also discovered that under capitalism profit motive was the guiding force in production. The quality and the quantity as also the scale of production was determined not by the needs of the consumers but by the rate of profits enjoyed by the capitalist producer. This meant that production ceased to be dictated by consumption, it was dictated by profit. At the same time, Marx found out that the capitalistic producer in his anxiety to appropriate to himself as much of the surplus value as possible tried to reduce the share of the worker. He could succeed in his exploitation of the worker because through the control of the means of production he controlled employment. This meant a continuous increase in the share of the capitalist which was soon to be greater than his consumption needs. He, therefore, increased his savings by which process accumulation of capital progressed and production expanded. This increase in production, unaccompanied by a corresponding increase in the demand for consumption, caused by the shrinkage of purchasing power in the hands of the working people through the exploitation of the capitalists, finally led to over production. Over-production by way of reaction brought about under production and therefore, the capitalistic system of production was characterised by alternative periods of booms and depressions.

Marx also found out that capitalism had a monopolistic tendency. It must finally divide the human society into two

opposite camps of the "have" and the "have-nots." Through competition the minor producers are wiped out and only the bigger ones remain. These ex-propriated producers, swell the ranks of the hired labour whose interests clash with those of the capitalist.

It is possible to disagree with the brilliant thesis of Marx but the actual experiences of the working of the capitalistic system have confirmed rather than disproved the contention of Marx. It is now universally recognised that private enterprise has certain grave defects and that it may not always lead to the development of national economy so as to ensure and serve the best national interests. The world has bidden good-bye to the principle of *laissez-faire* and the desirability of state interference in the economic life of the nation is no longer open to question. Indeed, the world is now fast moving to a rapid nationalisation of economy and even the traditionally free-trade and free-enterprise countries have found it necessary to undertake nationalisation at least in some of the branches of production.

THE DEVELOPMENT OF THE IDEA OF NATIONALISATION:—

The stimulus to the modern trend towards nationalisation of industries has been provided by three important factors. In the first place, the bold experiments of the Soviet Union which have shown that state enterprise will not necessarily be worse than private enterprise have convinced the world of the desirability of nationalisation. The rapid increase in production and the standard of living in Russia has given a categorical answer to the opponents of nationalisation. In the second place, the development of monopolistic tendencies through industrial combinations in the capitalistic countries has forced the governments to take action. Experience has shown that the most effective way of dealing with such industries is to nationalise them. Thirdly, it has been recognised that certain industris are such that they, either on account of the enormity of investment of capital or on account of the absence of profits for a comparatively long period in the initial staged, cannot at all be developed through private enterprise. Such, for example, is the case with the transport and public utility services. It has, therefore, been found necessary to start such industries with state initiative and under State ownership. The recent craze for armament production generated by the over-hanging clouds of war has again led to nationalisation of industries, specially the defence and key industries.

Nationalisation of industries solves the problem of over-production by correlating national production with national needs. At the same time, it leads to the utilisation of idle resources and further employment of the various factors of

production in such enterprises as the private entrepreneurs hesitate to undertake. It also checks the growth of monopolies for the exploitation of the public and runs public utility schemes and industries of a monopolistic nature in the interests of the State and the general consumers. In the case of basic and key industries, nationalisation ensures cheap and adequate supply of essential raw materials to other industries. Of late, it has been recognised that the institutions dealing in money and credit have begun to play a very important part in the economic life of the country. The need for control over them has, therefore, been considered great. During the periods of inflation and deflation such a need cannot be minimised. The interference in the working of the banking system culminating in the nationalisation of banking has become almost universal. It has been argued that adequacy of control requires nationalisation of Central Banks as the necessary condition.

The very development of State Socialism as an alternative to Communism is a sufficient proof of the importance of nationalisation. In England, the traditional home of free trade and *laissez-faire* the Labour Government has introduced ambitious plans of nationalisation. The programme began with the nationalisation of land and then spread to transport. Later on, the Bank of England was nationalised and there was an immediate nationalisation of the Iron and Steel Industry. There is a further tendency for the nationalisation of other industries too. The state ownership of defence services and industries and public utility services has become almost a universal rule. The state interference in the working of the industries in U. S. A. is definitely increasing and a small beginning in nationalisation has been made by state ownership of certain war, defence and atomic industries. The story in France is not different. Nazi Germany and Fascist Italy had already nationalised their industries. With the whole of Eastern Europe and a major portion of Asia under Communism, nationalisation has made a great headway. Even the liberal socialistic or democratic countries outside the communistic fold are definitely wedded to a policy of nationalisation of industries at least in certain important directions.

NEED FOR NATIONALISATION IN INDIA :—

In a country like India where idleness of resources and manpower is prepostrous, the need for the development of industries through state aid or through state initiative and ownership cannot be over-emphasized. The traditional shyness of Indian capital makes it all the more imperative for the state to step in. Moreover, as a compromise between communism and capitalism nationalisation cannot be dismis-

sed as an insignificant suggestion. It was long ago that in the matter of railway transport the principle of state ownership was applied in the country. Recently, the various provincial and state governments have come out with road transport nationalisation schemes. U. P. has set the example which is soon going to be followed by Punjab. The nationalisation of sea transport and air transport is already under consideration. In the matter of public utility services, the principle of state ownership or at least state control has already been accepted. The defence industries are also in general nationalised industries, while with the abolition of Zamindari, the ownership of land by absentee landlords is going to end.

The Report of the Economic Programme Committee appointed by the All India Congress Committee under the Chairmanship of Prime Minister Nehru had made important suggesstions for the nationalisation of industries. The Committee has recommended abolition of zamindari and substitution of cooperative farming in its place. In the case of cottage industries and small scale and food industries also cooperative system of production has been recommended. The Committee has recommended nationalisation in respect of defence, key and public utility services. In addition nationalisation of banking and insurance has been recommended. At the same time in respects of industries of national importance or industries which are basic so that their finished products are used as raw materials by other industries such as the Iron and Steel industry, nationalisation has been considered as desirable. A similar situation exists with respect to industries of a monopolistic nature or likely to be of a monopolistic nature.

Already the Government of India has nationalised the Reserve Bank of India and the nationalisation of the Imperial Bank of India is under consideration. The Bill for the nationalisation of Insurance is being finalised and the government is examining the question of state trading as a preliminary to nationalisation of foreign and internal trade. As a matter of fact, during the war-time state control of trade became a practical proposition and nationalisation is just a step forward.

DRAWBACKS OF NATIONALISATION :—

Nationalisation of industries, however, has certain drawbacks. State ownership is always impersonal and hence, there is a greater chance of the slackness of management. In fact, the absence of direct personal interest and direct personal bearing of consequences often leads to faulty management and induces lack of vigilance, initiative, alertness, and the urge for improvement. It is often argued that the cost

of production in a nationalised industry is high and the relative levels of efficiency are low. While this has to be admitted that hired officers and administrators cannot exercise the personal care of the owner and on that score scope for loss of efficiency exists ; but the presence of lower costs of production should not be taken as a sign of higher efficiency. The fact is that in a nationalised industry labour is better paid, better cared for and the conditions of work as also the conditions of health, hygiene and housing are better and that, of course, means higher costs. It is not merely the money costs after all which matter for the society. There are also social costs of production in the shape of physical and mental tiresomeness, worries and anxieties, risks and uncertainty and loss of health and leisure. It is these social costs which the nationalised industry reduces. Little wonder, therefore, if the money costs are slightly high. Of late successful attempts have been made to run nationalised industries on purely commercial and competitive lines and the results have not been discouraging. The nationalised industries of Soviet Union are next to none in the matter of efficiency. Thus, the proposition that private enterprise can do better than state enterprise has lost much of its importance. The recent conceptions of regional planning, decentralisation of industries and the development of backward areas have widened the scope for state initiative and ownership while the modern trend of thought demand nationalisation.

THE CONCLUSION :—

We have noticed above that there is a general tendency towards nationalisation of industries all over the world so much so that some of the industries have come to be recognized as exclusively the concern of the state. It has also been shown that the argument of higher cost is not very tenable. From the point of national dividend, national health, efficiency and happiness, social costs are far more important than money costs. The Government in India has thought it fit to nationalise some of the industries but, in general, the national government is weak and confused in her economic outlook and ideology. The question of the nationalisation of industries has been put off. The First Five Year Plan divides the industrial life into public and private sectors. In respect of basic, defence, and power industries the state will be the entrepreneur while all other branches will be left to private enterprise. The government spokesmen have often argued inadequacy of capital, skill and proper labour as impediments to nationalization. But this presupposes that the existing facilities will not be utilised. There might be some truth in the critics' remarks that ours is a government work-

ing for the benefits of the capitalists whose influence on it is profound.

Suggestions for further reading:—

1. Proceedings of the Industrial Conference (1947).
2. Government Measures Affecting Investments in India: D. K. Malhotra.
3. Report of the Economic Programme Committee of the All India Congress Committee.
4. The N. P. C. Report on Industries.
5. The Reserve Bank Nationalisation Act.
6. Das Kapital: Karl Marx.
7. The First Five Year Plan.
8. State Socialism: Cole.

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PROFIT-SHARING IN INDUSTRIES.

Synopsis :—

1. Introductory—there are different interpretations of the term, but finally it may be defined as payment made to employees in cash stock or future credits of some amount over and above the normal remuneration to be paid in the given situation.

2. Advantages of the Scheme—it is a triumph of the labour theory of value, it creates favourable psychological atmosphere for industrial peace, the workers share the pride and pleasure of production and put in their best, it leads to the retention of private property, stabilizes employment, it has both social and economic advantages ; in practice it is not very successful, it destroys working class solidarity, to many workers' organisation profit is a blashphemy, employer often attaches loyalty strings, the employer finds in it a check on his powers, he can resort to accounting jugglery, workers do not share the losses, it has not lessened disputes, its incentive value has been negligible, it often leads to disturbances in the capital market.

3. Government Policy on Profit-sharing in India—govt. resolution on Industrial Truce envisages control over profits, fair wages and recognises the existing wage rates as fair, after deducting wages, capital depreciation and replacements excess profits should be distributed to the labour on a sliding scale, the Government was unable to correlate profit-sharing with production, three important angles of vision are emphasized, viz., incentives, industrial peace and participation of labour in management, after defining capital, the Committee recommends the scheme of profit-sharing as an experiment and recommends labours' share as 50% of the surplus profits, the worker should directly be paid only upto 25% of his basic wage under the scheme, the committee recommends profit-sharing unitwise which very often is not fair.

4. A critical Estimate of the Government Policy—unitwise profit-sharing schemes cut across trade union organisation based generally on industry-wise, industry-wise schemes lead to subsidization of inefficient units,

in the textile industry the industry-cum-locality scheme has been evolved to determine the minimum share of the worker, in every case remuneration in cash is limited to 25% of the basic wage, no law in this case has been passed in India, most of the schemes are either voluntary or are based upon awards which widely differ, in other countries arrangements are voluntary in general.

5. The Conclusion—a number of methods have been adopted to fix the workers' share of profits, according to the different objectives in view different methods are adopted, in general the workers' share is linked to his annual earnings, a minimum period of service is insisted upon.

Introductory :—

The term profit-sharing admits of different interpretations. In a sense, anything paid to the worker over and above the wage rate whether in cash or in kind is indirectly related to profits. According to this interpretation, if any employer incurs any extra wage expenditure for workers on items such as medical aid, recreation facilities, holidays with pay may be said to be sharing his profits. Similarly, if a firm pays more than the market rate to attract labour, it may be pointed out that this extra payment partakes of the nature of profit-sharing. In its pure sense, profit sharing has been defined as an agreement freely entered into by which the employees receive a share fixed in advance of the profits. Three features of a profit-sharing scheme are worth noting. In the first place, it implies that the worker gets something more than the market rate of labour earnings, though theoretically it may be argued that the profit sharing employer gets or expects to get a higher efficiency from his employees. Secondly, it signifies that the proportion of the share of the workers is determined before profits are declared. Thirdly, it covers a fairly large number of workers employed in a unit. If this definition is accepted, it will be clear that neither bonuses nor gratuities nor pensions are, strictly speaking, profit-sharing schemes. In a like manner, if a firm gave a share of its profits to its executives only, it would not be implementing a true profit-sharing scheme unless it extends similar facilities to a substantial number of wage earners. In brief, profit-sharing may be regarded as being the payment made to employees in cash stock or future credits of some amount over and above the normal remuneration that would otherwise be paid to these employees in the given situation.

Advantages of the Scheme :—

In theory at least, profit-sharing appears to be attractive. Technically speaking, it is a triumph of the labour theory of value. It appeals to one's sentiments. What can be more valuable to the worker than that he should be entitled to a share of profits. Its protagonists argue that it creates a favourable psychological atmosphere in the factory and stimulates that cooperative spirit between labour and mangement which is so essential for its smooth running. It removes one of the main causes of industrial disputes. It stimulates the worker to put in more effort to raise his output. The worker's interests are identified with those of the management and by methods such as economy in the use of raw-materials, careful maintenance of machinery and improvement in quality, he tries his best to increase the profits of the concern so that his share may proportionately increase. Under a profit-sharing scheme, the worker shares with the management the pride and pleasure in the success of the firm as also its prosperity.

There is considerable logic in the fact that profit sharing broadens the base of economic structure of ownership and thereby tends to perpetuate the institution of private capitalism. There need be little fear of the destruction of private capitalism as long as a majority of the people participate in the fruits of the system and have a feeling of proprietory interest. Stabilization of employment is another objective that is frequently not included as one aim of profit sharing Profit-sharing affects stability of employment only indirectly. It provides a means of rewarding employees in keeping with the ability of the enterprise to pay without incurring fixed costs in the same sense as if the amount were distributed as a part of the regular wage. If there are no profits, they naturally will not be distributed.

An analysis of the foregoing reasons shows that they have both social and economic implications. Increased production, elimination of wastes, reduction of labour turnover and the promotion of effective management are all factors that have a direct economic connotation. It is true that these objectives also have broad social implications. Employee security, stabilization of employment, industrial peace and humanitarian purposes are essentially social in their major emphasis.

The Other Side of the Picture :—

In practice, however, profit-sharing has not performed any of these miracles. Surprisingly enough, it has been opposed by organized workers themselves who see in it a menace to their solidarity. Profit sharing pre-supposes profit-making and profits constitute a blashphemy to a section of

the working class organization which believes that to earn profit is to exploit the society. To workers with this ideology sharing of profits means entering into an unholy alliance with the capitalist to rob society. By inviting workers to share in profits, the employer gives a sop to the workers. It is a device by which the employer creates disunity in the ranks of labour. Wages in the profit sharing concerns generally tend to become depressed and therefore, ultimately it stands in the way of wages rising higher. Usually, the employer attaches the loyalty strings to profit-sharing schemes and these loyalty conditions interfere with collective bargaining and, therefore, with the growth of trade unionism. Even those trade unions which do not object to profit-sharing on ideological grounds, are dissatisfied with the way in which profits are determined by management. The worker, they point out has almost no voice in determining the dividend policy of the firm and by accounting jugglery it is always possible for the employer to deny the rightful share to labour.

Profit-sharing is also disliked by the employer who sees in it a frightful attack on his prerogative. He can invoke an equally convincing theory to prove that profits are determined by several factors which are outside the orbit of the individual worker. Then he can reasonably argue that if workers want a share of profits, let them also share the losses, a proposition which is undoubtedly unacceptable to the working class. A profit-sharing scheme involves inspection of the firms accounts by the workers and this is not acceptable to a large number of employers especially those who attach much importance to business secrets. Though admitting the need for giving sufficient monetary and psychological incentive to labour, progressive employers point out that profit sharing is a dubious method of stimulating the worker's initiative. In the case of profit-sharing, the reward of the worker, if any, is necessarily postponed with the result that its incentive value is extremely limited. On the other hand, there are other methods which are more effective in prompting the worker to do his best. For example, payment by results and production bonuses have been more successful in increasing the worker's productivity, for they are directly related to his efforts. Experience has shown that apart from some individual exceptions, profit sharing does not lessen industrial dispute, In fact, the difference of opinion between labour and management on the basis of the scheme may be a potential cause of greater industrial conflict.

Profit-sharing as an incentive to increased effort is not so effective as many of the wage incentive plans that can be directly related to the individual's efforts at the time. When profits are paid in cash they are likely to be spent for

current items and not serve to increase the employee's security. Cash profit payments are also more likely to be considered a part of the regular wage and will thus fail to carry the desired 'partnership idea'. The failure to pay expected cash profits may readily serve as a morale destroyer especially when the worker has come to look upon the cash payment as a part of his wage. When profits are distributed to the workers in the form of annuities or some such form as preferred stock that is held to build up an estate, they probably serve as a weaker incentive to the worker in the beginning of his career than when the distribution is in cash ; however, the motivating force of annuities tends to increase ultimately. It is also argued that enforcement of any profit-sharing scheme will result in seriously affecting the incentives to save and to invest, while not materially stimulating the incentive to labour efficiency. It is further likely to result in violent disturbances in the capital market arising out of an enforced scaling down of equity values and leading inevitably to an investor's strike and the slowing down of the rate of capital formation.

GOVERNMENT POLICY ON PROFIT-SHARING IN INDIA :—

The Committee on Profit-sharing which was appointed by the Government of India in May, 1948 formed the following fundamental propositions emerging from the Govt. Resolution on Industrial Policy read with the Industrial Truce Resolution.

(a) The general economic policy of the Government will be designed to prevent excessive profits from arising, presumably by measures such as the fixation of fair wages and the regulation of prices. The taxation policy of Government will, in its turn, deal with profits which arise in a manner beneficial to the community as a whole.

(b) A fair wage to labour must be the first charge on industrial production. Obviously, wages must be paid whether profits are made or not. Until the revision of wages by a separate machinery to be set up is undertaken, the prevailing wages which are usually the results of collective arrangements between employers and labour or adjudications and awards may be assumed to be the equivalents of fair wages.

(c) After wages are paid, provision must be made for reasonable reserve for maintenance and expansion and for a fair return on capital employed in the industry. Unlike wages which must be a first and inescapable charge, provision for reserves and return on capital can only be the first charge on profits after taxation.

(d) If profits exceed the provision required under (c)

above, a share of such excess should be paid to labour as additional remuneration.

(*e*) The share of labour under (*d*) above should bear a definite relation to production or, in other words, it should be on a sliding scale varying with production.

"How labour's share in profits might be related to production is in many respects, the crux of the problem," says the report, which comes to the conclusion that it is not possible to devise a system in which labour's share of profits could be determined on a sliding scale varying with production. Theoretically, it should be possible to devise a formula which links labour's share of profits to the total production of the undertaking in some way but the committee holds the opinion that it is impossible to devise and apply such a sliding scale. Profits made by industries, however, depend on many factors besides labour and to that extent do not bear any measurable relation to what labour does or does not do.

The report adds "All discussions on profit—sharing, in the last analysis, must be viewed from three important angles, profit sharing as an incentive to production, profit sharing as a method of securing industrial peace and profit sharing as a step in the participation of labour in the management. Giving labour a share in the profits of industry apart from wages, would create psychological conditions favourable to the restoration of industrial peace which will indirectly facilitate increased production. On the first point, the committee thought that by distributing the share of labour the total share itself being arbitrarily determined among individuals in proportion to their total earnings in a preceding period, a measure of individual incentive to labour for increased production would be provided.

The committee pointed out that the main reason for recommending an experiment in profit sharing is that it would promote industrial peace. It provided that the benefits of profit sharing in any year should be witheld, wholly or in part from workers who during that year participate in a strike declared illegal by a competent authority. Similarly, if there is an illegal lock-out, surplus profits should be computed for the purpose of profit-sharing as if there had been no such lock-out.

The committee defined the capital employed as paid-up capital plus reserves which are held for the purpose of the business. Depreciation should be the first charge on gross profits and reserves should be the first charge on net profits, viz. gross profits minus depreciation, managing agency commission and taxation. The question of fair return to capital is viewed by the committee carefully and

dispassionately and it comes to the conclusion that a fair return on capital employed in the established industries should be that minimum return which will encourage further investment. Taking all factors into consideration under the present circumstances, six per cent on paid-up capital plus all reserves held for the purpose of the business, would be a fair rate. After an examination of the extent of reserves in undertakings in the industries selected, 6% on capital employed as augmented by the 50% of the surplus profits would enable the concerns generally speaking to declare a reasonable dividend. If in any year, profits are not enough to provide this rate of return, the deficiency should be made up in the succeeding years cumulatively.

As regards the labour's share in the surplus profits the committee stated that it is not possible to relate labour's share to changes in production and that its share must be determined in an arbitrary manner. It came to the conclusion that labour's share should be 50% of the surplus profits of the undertakings. The individual worker's share of profit should be in proportion to his total earnings during the preceding 12 months minus dearness allowance and any other bonuses received by him. This should, of course, be in substitution of any other form of profit-sharing bonus that is being [illegible] now. If an individual worker's share exceeds [illegible] basic wage, the excess should be credited either [illegible] provident fund account or held over in some other manner.

The Report says, that Profit-sharing can only be unitwise. Only then can the fundamental objective of profit-sharing, that the worker should have a direct interest in the fortunes of the concern in which he works, be attained. This will inevitably mean no share for labour in units which do not make profits. It will also involve differences in remuneration to labour in different units. The efficient worker who has the misfortune to be employed in an undertaking which makes no profit must remain content with his ordinary wages while an inefficient worker who has the good fortune to work in a profit-making-concern will, nevertheless, share inthe prosperity of that concern.

CRITICAL ESTIMATE OF THE GOVERNMENT POLICY :—

Trade unions are usually organized on an industry-wise basis and profit-sharing unitwise will cut across that structure. This may lead to industrial warfare. It has been suggested that these difficulties can be removed if profit-sharing is on an industry-cum-locality basis but employers are fundamentally opposed to such pooling of profits which will mean subsidizing of inefficient concerns by the more efficient units in an industry. Such a system will not be

profit-sharing and will be nothing more than a form of special levy on a selected industry for the benefit of certain sections of labour. In view of these difficulties, the committee recommended a scheme where profit-sharing should normally be unitwise but would be on an industry-cum-locality basis in the cotton textile industry in Bombay, Ahmedabad and Sholapur. In these cases, the surplus profits of the units will be pooled for the purpose of ascertaining what should be the profit-sharing bonus payable as a minimum by every unit to its labour irrespective of its profits. But in those units where half the surplus profits (the amount due to labour in that unit) exceed the sum required to pay the minimum bonus referred to, such excess shall also be paid to the workers of that unit. In all cases, however, individual cash disbursement will be limited to 25% of the worker's basic wages and any excess will be kept in his account, provident fund or otherwise. The net effect will be that labour employed in every unit in the locality will get a minimum share calculated on the basis of the total of half the surplus profits of all units in that locality which make surplus profits.

In India, no law has so far been passed for regulating the payment of profit sharing bonus. Most of the schemes which are in force at present, are either vol[illegible] or are the results of awards of adjudicators. In th[illegible]ny law on the subject or generally accepted [illegible]garding the nature of profits and share of profits to which the workers could be entitled, there has been considerable diversity in the findings of the adjudicators on this subject. No fixed principle is discernible in the awards regarding the quantum of bonus. The adjudicators have generally considered the financial condition of the undertaking and its capacity to bear the burden while fixing the quantum of bonus. There, has been no uniformity in regard to the definition of 'profits.' The general inclination of the adjudicators seems to be that bonus should be linked with profits, a view held by the U. P. Labour Enquiry Committee 1948 and the Committee on profit-sharing recently appointed by the Government of India.

As regards practice in other countries, profit-sharing is a voluntary arrangement between employers and employees. In some of the countries, however, statutory provision has been made whereby employers are compelled to share profits with their employees. Profit sharing in foreign countries has generally taken the following three forms: (1) cash payments are made at the end of specified periods (2) participation is deferred by placing the worker's share of the profits in a savings account, provident fund etc. and (3) payments are made in shares of stock. In the countries where profit sharing is a voluntary arrangement, the first form is more popular but in those countries where profits are shared under

law, the workers get only a part of their share in cash and the balance is deposited in their name in approved banks.

THE CONCLUSION :—

A wide variety of methods have been adopted by different undertakings for determining the proportion of profits to be distributed among the employees. The most common method, however, is to set aside a definite percentage of profits earned for distribution among workers. The individual worker's share of profits depends upon the objective of the plan. When the primary purpose of the plan is to reward long service, the individual share is weighed according to the length of service; when the objective is to encourage savings the individual's share is made dependent upon his contributions; and when the main object is to increase production, greater emphasis is laid on individual performance. Sometimes, an attempt is made to give weight to all these factors. In a majority of the schemes, however, the worker's sh[illegible]re is linked to his annual earnings excluding overtime. T[illegible]st common qualifying condition for participation in a p[illegible]ing *plan is that the worker must have put in a* [illegible]iod of service. This period varies from four [illegible] but under most of the plans, the period is